AN INFORMATION REPORT

Studies In Comparative Federalism: CANADA

ADVISORY COMMISSION ON INTERGOVERNMMENTAL RELATIONS

Washington, D.C. 20575
JULY 1981

M-127

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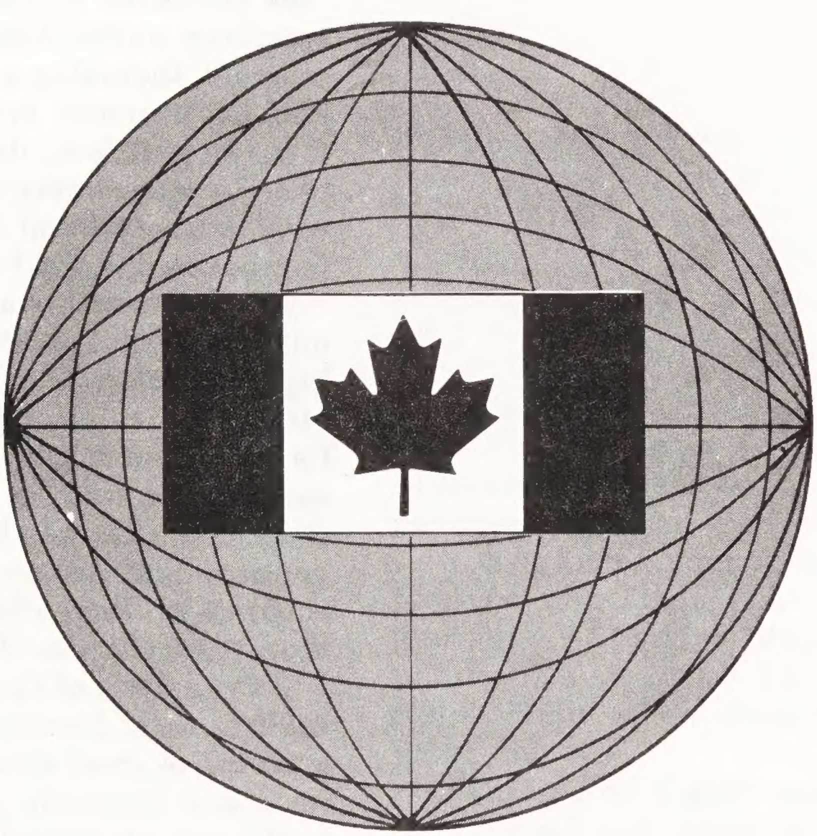

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Preface

In the State and Local Fiscal Assistance Amendments of 1976 (P.L. 94-488), Congress asked the Advisory Commission on Intergovernmental Relations to study and evaluate "the allocation and coordination of taxing and spending authorities between levels of government, including a comparison of other Federal Government systems." The objective of this research is to determine how federal systems in other industralized nations have dealt with issues of fiscal federalism that are of current concern in the United States.

To carry out this assignment, we have commissioned studies of federal systems in three highly developed industrialized countries with strong national governments: Australia, Canada, and West Germany. In addition, a comparative study of the United states and the three countries has been prepared. Individual country studies were assigned to eminent scholars of fiscal affairs; in two cases, the authors were citizens of the country under study.

This analysis of Canada is of particular interest because it describes a federal system during a period of great stress caused by divisive cultural and linguistic pressures, and by the impact upon provincial and national fiscal capabilities of the uneven distribution of valuable mineral resources. These pressures have caused Canada to examine anew the balance of national-provincial powers.

We believe this study of the Canadian experience can make a substantial contribution to understanding some of the problems confronting our own federal system, as well as their solution.

James G. Watt
Chairman

Acknowledgments

The principal author of this study is Professor Richard H. Leach, Department of Political Science and Director of the Canadian Studies Center at Duke University. Special thanks go to Douglas H. Clark, Assistant Director, Federal-Provincial Relations Division, Department of Finance, Government of Canada, who not only reviewed the draft of the study and offered a great many suggestions for its improvement, but also supplied many of the figures and facts so essential to make the study accurate.

At the Advisory Commission on Intergovernmental Relations, the studies of comparative federalism were under the general direction of John Shannon, Assistant Director for Taxation and Finance. L. Richard Gabler and Susannah E. Calkins prepared this study for publication. Lavinia B. Clarke typed the manuscript; Emily Crews typed the tables and prepared the map.

Thanks go to a great many officials of both the national and many of the provincial governments of Canada who willingly supplied data on request. The Canadian holdings in the Perkins Library at Duke University were the primary source of material; a debt of gratitude is owed to the staff of Perkins Library for the assistance they rendered.

Wayne F. Anderson
Executive Director

John Shannon
Assistant Director
Taxation and Finance

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Canadian Federalism: Processes, Financing, Problems

INTRODUCTION

Much more than in the United States, questions of federalism, intergovernmental relations, and centralization versus decentralization of power are issues of the day in Canada, not merely in scholarly writing but also in the media and on local street corners. This was especially the case as the 1980s began. In earlier days, federalism and questions of power allocation within the federal system were a matter of concern chiefly to Quebec, and much of the attention the Canadian press and academia paid to issues of federalism related to the aspirations and assertions of that province and its restlessness in confederation. More recently, it has become obvious that all ten provinces, in varying degrees of intensity, are concerned with the nature and future of the Canadian nation, and that concern is felt throughout the Canadian public. As one commentator put it recently, Canada today may be "the only country where you can buy a book about federal-provincial relations at an airport."[1]

Attention to issues of federalism has led to conflict and polarization in Canada—the national government versus the provinces, one region against another—and to a great many observations that the competition for power which it involves is harmful to Canadian development and prosperity, if not destructive to

Canada's future as a single nation. Thus Andrew H. Malcolm's article in the 1980 *New York Times International Economic Survey* was entitled "Internal Rifts Vex Canada," and it referred to "the ever present regional wrangles that . . . characterize Canada's brand of fractious federalism."[2] The same author, in a preelection review of Canada in *The New York Times Magazine*, spoke of "the fragile foundations of Canada's national unity," of "potentially . . . disruptive" differences, and of "constant federal-provincial confrontations,"[3] leaving the impression the Canadian federation is about to come apart at the seams. His views are shared by many other students and observers of Canada today.

Others are much more optimistic and point to the many successes of Canadian federalism over the years and to the Quebec voter's recent rejection (May 20, 1980) of a proposal authorizing the Quebec Government to negotiate a form of autonomy referred to as "Sovereignty-Association." In addition, as an aftermath of the referendum, there appears to be unprecedented public support in English Canada for making the kind of constitutional changes that could alleviate problems within the country. However, all agree the problems facing the Canadian federation are serious and are likely to require many years to resolve.

The most serious concern as the 1980s begin is that of jurisdiction over natural resources and, in particular, the governments' sharing the lucrative resource rents from oil and natural gas. This issue has disruptive potential for any federation, as natural resources generally are located unevenly throughout any given territory. Historically, it is a new problem for federalism because, until the international oil disturbance of 1973, originating in the Middle East, governments almost never had been confronted with the possibility of deriving really large revenues from natural resources over an extended period of time. Among the three federations the Commission is reviewing, this problem has assumed the greatest importance in Canada. One reason for this situation is that in Canada most of the resources from which revenues are derived actually are owned by the Canadian provinces prior to their severance. This gives the provinces concerned an unusually strong bargaining position. This problem does not affect the Province of Quebec (which produces neither oil nor natural gas); however, it does affect the three most western provinces and the Province of Alberta, in particular, which has accumulated a trust fund from a portion of its oil and gas revenues which exceeds $6 billion and is growing rapidly.

The concern demonstrated suggests not only that questions central to Canada's development in the 1980s still remain unanswered in the Canadian public mind, but also a wide range of opinions and options has been offered to resolve this issue. Perhaps the reelected Trudeau government will provide some direction. Immediate postelection judgments, however, were that Campaign 80 and its results suggest "an increase in regional tensions" on the one hand and a victory of centralists on the other, neither of which would seem to be good omens for a quick move to resolution. Indeed, what Prime Minister Pierre Trudeau heads, one commentator remarked, amounts to "a majority coalescence formed in the energy consuming provinces against the oil and gas producing ones."[4] Trudeau's Liberal Party won no seats at all in Saskatchewan, Alberta, and British Columbia and only two seats in Manitoba, as opposed to 49 seats in those four provinces for the Conservatives and 26 for the New Democratic Party. The Liberal caucus in Parliament thus contains no members to the west of Winnipeg. This being the case, the issues of Canadian federalism likely will continue to evade resolution in the immediate future and will continue to be in the forefront of national attention for years to come.

This study is not concerned with the broad issues of Canadian federalism touched on in the previous paragraphs, except as they provide the setting for the fiscal side of Canadian federalism. Obviously, any efforts to resolve the situation so briefly described will impact on that aspect of Canadian federalism. Thus the final section of this study attempts to review the alternatives posed for resolution. Before that, there are some general remarks about the nature of the Canadian nation and of the original Canadian confederating bargain, and about the parties to policymaking in general and fiscal policymaking in particular. Attention also is given to the machinery for fiscal policy development, the revenues and expenditures of

governments in Canada, and attempts at equalization and economic stabilization among the governments of Canada.

This study is based on a very extensive literature on Canadian federalism. Hard data do not keep up with commentary and observations so that although some of the data presented necessarily are from 1977 or 1978 the commentary attempts to reflect current Canadian thinking through the spring of 1980. The footnotes in a sense, can be considered as a bibliography for the study.

FOOTNOTES

[1] Peter C. Newman, editorial, *Macleans*, October 1, 1979, p. 3.

[2] *The New York Times International Economic Survey*, February 3, 1980, p. 39.

[3] Andrew H. Malcolm, "Canada Confronts Its West," *The New York Times Magazine*, February 17, 1980, pp. 22–23. A recent editorial in *The Globe and Mail* spoke of "the grand old Canadian tradition by which each region views the others with dark suspicion, unconcealed hostility, and the certainty that they are robbing it blind." (An editorial in the issue of January 24, 1980, p. 6.)

[4] Stephen Duncan, *The Financial Post*, February 23, 1980, p. 1.


Population:
23,671,500
Area
9,221,000 Sq. Km. Mi.
Beaufort Sea
BANKS ISLAND
QUEEN ELIZABETH ISLANDS
VICTORIA ISLANDS
BAFFIN ISLANDS
YUKON TERRITORY
NORTHWEST TERRITORIES
DISTRICT OF MACKENZIE
DISTRICT OF KEEWATIN
Labrador Sea
Hudson Bay
NEWFOUNDLAND
St. Johns
BRITISH COLUMBIA
Victoria
ALBERTA
Edmonton
SASKAT-CHEWAN
Regina
MANITOBA
Winnipeg
ONTARIO
Ottawa
Toronto
QUEBEC
Quebec
Montreal
PRINCE EDWARD ISLAND
Charlottetown
NEW BRUNSWICK
Fredericton
Halifax
NOVA SCOTIA

Chapter 1

Canada: Provinces and Nation

GEOGRAPHIC AND HISTORICAL BASES

To understand Canada and particularly Canadian federalism, it is necessary first to grasp the basic facts of Canadian geography and historical development (see map), for they underlie the regionalism, translated in practical terms into provincialism, that is the hallmark of Canadian society. As any elementary geography text makes clear, physically Canada falls into five natural land divisions:

— the eastern seacoast area, encompassing the Maritime Provinces of Nova Scotia, New Brunswick, and Prince Edward Island, and the Atlantic province of Newfoundland. This area is cut off from the central and western part of Canada by water (Newfoundland, except for Labrador) and by the extension northwestward of the Appalachian Mountains (the other three provinces);

— the St. Lawrence River lowlands region of fertile soil, which encompasses the most populous portions of the provinces of Quebec and Ontario;

— the great Canadian shield of pre-Cambrian rock, extending in a V-shape from across the United States border northward to the east and west in

Canada, creating an inhospitable and largely undeveloped barrier of forest and lakes between eastern and western Canada;

— the open interior plains on the western side of the Canadian shield—the Great Plains of the American West extended. The provinces of Manitoba, Saskatchewan, and Alberta were carved out of this region; and

— the great range of mountains rising in western Alberta, forcing British Columbia, the province to its west, to face the Pacific and, in many ways, to be more linked with the United States than with the rest of Canada.

As settlement began in Canada, these geographic regions dictated the pattern. Settlement began with the French and English establishing colonies in Atlantic and Maritime Canada, chiefly in Newfoundland and on the coasts of Nova Scotia. A little later, the French under Champlain moved into the St. Lawrence lowlands via the river, founding the city of Quebec in 1608. From then on, approximately 10,000 Frenchmen bypassed the Atlantic settlements and formed the nucleus of the colony of Quebec. Later still, English and American settlers moved into the lowlands territory west of the French enclave which was to become the province of Ontario. Lord Selkirk began settlement of the prairie west. He avoided the Canadian Shield by coming into the area via Hudson Bay and its contributing rivers to found the Red River Colony, now Manitoba. Finally, by sea around Cape Horn, English and other settlers moved into the colony of British Columbia.

Thus not one but five separate Canadas came into being, each cut off from the others and developing over time quite independently of each other. Whatever links their residents had outside their own areas were more with their mother countries than with the other settlements on Canadian soil. After the defeat of Montcalm on the Plains of Abraham in 1759, the link between Quebec and France was cut, isolating the French residents of Quebec, then numbering some 60,000, and turning their interests and energies largely inward toward their own independent survival. And after the American Revolution, the link between Ontario and the United States was broken. The two colonies in the lowlands region even then could not turn to each other for mutual support. Though they were developing complementary economies, Quebec and Ontario were divided sharply by religious, ethnic, social, and linguistic differences, which became more important with every passing year.

Each of the colonies continued to develop, but they did so individually, each largely insulated from the others, and like the French in Quebec, each primarily interested in its own development and prosperity. For its own purposes, Great Britain united Quebec and Ontario into one province in 1840, though "united" is hardly the appropriate word to use in that connection. The two colonies never were happy yoked together, and the differences between them increasingly were apparent to Britain. It was partly because they were seeking a way out of their undesirable marriage that the series of events leading to broader interregional linkage was set in motion during the 1850s. The necessity for solving that marital problem came at a time when Great Britain was washed by a wave of anticolonialism, manifested by eliminating the imperial preferences which had benefitted its colonies, and was looking for ways to step out from under what it was coming to see as its Canadian colonial burden. It also came at a time when the Atlantic Provinces were experiencing great economic difficulty as a consequence of the new age of steam and steel and at a time when the railway offered exciting possibilities for opening the Northwest and overcoming distance barriers. Pushed perhaps more rapidly toward a "solution" than it otherwise might have been by the threat Canadians had come to feel from their neighbor to the south, Britain was happy to enact the British North America Act in 1867 and turn her attention elsewhere.

That act brought the colonies of Quebec and Ontario (known then as Upper and Lower Canada) and Nova Scotia and New Brunswick into "One Dominion." Manitoba was included in 1870, British Columbia decided to enter in 1871, and Prince Edward Island in 1873. The other Prairie colonies were governed as territories until Saskatchewan and Alberta were admitted as provinces in 1905. Finally, New-

foundland, by Terms of Union ratified between Canada and herself, joined in 1949, thus rounding out the picture (save for the north, more about which later).

CONSTITUTIONAL BASIS

The British North America Act (BNAA) spoke in its preamble of forming a "union," of "federally" uniting the provinces under the Crown. Like the American Constitution, however, it did not make clear just what it meant by those terms. It generally is conceded that the BNAA extended authority for both nation building and province building as the two focal points of Canadian development. Recognizing the new nation would need a countrywide basis on which to build for it to live in the world of nations and of international trade, the act granted strong powers to the central government; but power over such areas as education, civil law, health and welfare, property, and civil rights was left with the provinces. Indeed, by its own words in the preamble, the BNAA posits "a Union would conduce to the Welfare of the Provinces. . . ." The act, which has—with amendments—served as Canada's constitution to this day, thus accepted regional differences and regional expression of them as a fundamental precept of the Canadian governmental arrangement.

The BNAA does indeed create in the Canadian national government an instrument of power. By the terms of section 91 not only does the national government have an extensive list of exclusive particular powers, but also they give the national government residual authority "to make laws for the Peace, Order, and Good Government of Canada" in respect to all matters not assigned by section 92 exclusively to the provinces. The act also assures to the central government ample taxing and revenue powers (section 91.3 gives Parliament the power to raise "money by any Mode or System of Taxation"). Acting from that power base, the national government early became a significant policymaking force in Canada. The first Prime Minister of the new confederation, Sir John A. MacDonald, was an avowed nationalist, and he led Canada through an initial period of dynamic nation building.

At the same time, the BNAA gave the provinces, in sections 92 and 93, their own long list of exclusive powers, including power over most aspects of their internal operations and over most of the domestic affairs of their residents, as well as over municipal institutions and, most importantly today, over most aspects of their own natural resources. With that authorization, and with a long tradition of independent operation as colonies behind them, it was not long before the provinces began to move in the direction of province building. As they did so, they reaffirmed their centrality in Canadian affections. Their assertions of power had become so strong by 1896, Sir Wilfrid Laurier, who became prime minister that year, pledged himself to respect provincial autonomy. Ever since then, except for periods of depression and war, the provinces increasingly have demanded and exerted power for domestic purposes.

By the 1960s and 1970s, the relative power positions of Canada's two levels of government had become the central issue of Canadian politics. The provinces, to varying degrees, had become highly critical of the national government as it had attempted, in their view, to expand its power at their expense.

The issue of power was broached directly at the First Minister's Constitutional Conference in Ottawa, February 5-6, 1979. The nature of the discussions which took place between the heads of governments at that time can be gleaned from Prime Minister Pierre Trudeau's statement following the conference. Mr. Trudeau declared the national government had gone "a very considerable distance" at the conference "to satisfy feelings of regional alienation, feelings of provinces who felt that they were endangered by federal preeminence in legislative areas."[1] To some extent, the elections of May 1979, and February 1980, both revolved around those same issues and feelings.

What is important to keep in mind, then, as we move toward a discussion of fiscal federalism in Canada, is that both Canadian geography and Canadian history foreordained an arrangement of government in which a sharing of power between the national government and the provinces was necessary and the British North America Act embodies such an arrangement in law. Through judicial interpretation and the development of governmental conven-

tions, the provinces' power position has been enhanced, though the national government has not been rendered impotent by any means. Thus, as Thomas Hockin concluded, "since 1867 Canadians have been engaged not only in nation building but in province building as well." Throughout his *Government in Canada* Hockin emphasizes "the importance of provincial governments as sources of power in the Canadian condominium" and the degree to which Canadians seek to maintain and enhance regional and provincial identities.[2]

As suggested already, however, sharing power has not been easy; indeed, it has produced a continuous quarrel among the governments of Canada. But it is a quarrel among friends or at least allies. The prophets of doom do not understand that the current contretemps, far from leading to disintegration, ultimately could lead to a strengthened Canada with an improved sharing of the power to govern. Canada today is remaining true to its origins, which emphasize both regional, i.e., provincial, and central power and do not freeze the nation into one particular balance of power. Nowhere is the dynamism of Canadian federalism more observable than in the fiscal arrangements between the governments of Canada.

FOOTNOTES

[1] Quoted in *Canada Weekly*, Vol. 7, No. 8, February 21, 1979, p. 3.

[2] Thomas A. Hockin, *Government in Canada*, New York, NY, W.W. Norton and Company, Inc., 1975, p. 36.

Chapter 2

The Disparate Provinces

Before examining Canada's fiscal arrangements, it is necessary to look at (a) the provinces of Canada in economic terms, for it is largely to their different "economic patterns and aspirations"[1] that the fiscal arrangements respond, and (b) the governmental institutions, both provincial and national, through which these arrangements are worked out.

CURRENT ECONOMIC INDICATORS

Table 1 contains a mass of basic data for comparing the provinces' economic situations. As Douglas Auld has observed in his own study of the economic dimensions of Canadian confederation, "one could fill pages with economic and population statistics that describe the regional diversity of Canada and still be criticized for leaving something out." There is also the problem of development over time, which a table such as *Table 1* cannot show. Auld also notes the division of Canada into regions, however geographically and historically justified, tends to hide the fact "that *within* regions there are substantial differences in terms of wealth and income, population and resources."[2] The paragraphs that follow attempt to illustrate some of the major overall trends as well as the intraregional differences.

It should be noted, first of all, three provinces have been particularly important in recent Canadian policymaking and promise to

Table 1

ECONOMIC INDICATORS OF THE CANADIAN PROVINCES
(all dollar figures are Canadian dollars)

	Alberta	British Columbia	Manitoba
Seat of Government	Edmonton	Victoria	Winnipeg
Party in Power	P.C.	S.C.	P.C.
Area[1] (in square kilometers)	638,200	893,100	547,700
Mid-1979 Population[1]	2,008,900	2,566,900	1,030,500
Percent of Total Canada Population	8.5%	10.8%	4.4%
Percent Population Increase,[3] 1974–79	16.6%	8.0%	2.3%
Population Per Square Kilometer	3.1	2.9	1.9
Gross Domestic Product, 1978[4] (in billions)	$24.9	$25.6	$8.5
Percent of Total Canada GNP, 1978	11.8%	12.2%	4.0%
Percent Increase in Domestic Product Predicted for 1980	5.2%	2.6%	1.7%
Per Capita Personal Income, 1978[5]	$8,407	$8,784	$7,456
Percent of Canada Average Income, 1978	104%	109%	93%
Employment, 1978[6]	915,000	1,093,000	440,000
Employment Percent Increase, 1973–78[7]	29.6%	18.8%	9.4%
Unemployment Rate,[8] October 1979	3.5%[9]	7.1%	5.0%
Factory Shipments, January-October 1979 (in billions)	$7.2	$12.0	$3.3
New Capital Investment, 1979 (estimated in billions)	$11.0	$7.0	$2.1
Value of Mineral Production, 1979 (preliminary in billions)	$12.9	$2.7	$0.6
Average Weekly Wages/Salaries, October 1979 (estimated)	$320.28	$341.57	$266.86
Urban Housing Starts, 1979	30,200	21,300	4,400
Retail Sales, January-October 1979 (in billions)	$6.4	$7.4	$2.4
Farm Cash Receipts, 1979 (estimated in billions)	$2.8	$0.7	$1.3
New Motor Vehicle Registration, January-October 1979	147,906	112,573	42,955
New Construction, 1979 (estimated in billions)	$7.9	$4.7	$1.3
Business Failures, January-November 1979	350	654	83

N.A. Not available.

*Less than 1% or $50 million.
[1] Total area of Canada: 9,221,000 sq. km.
[2] Total population of Canada (mid-1979): 23,671,500.
[3] Total population increase for Canada, 1974-79: 5.8%.
[4] Total GNP Canada, 1978: $210.2 billion; compilation in *The Financial Post,* December 8, 1979, showed it at $210.1 billion.
[5] Per capita personal income for Canada (average): $8,049.
[6] Total employment in Canada, 1978: 9,972,000.
[7] Percent of employment increase for all Canada, 1973-78: 13.8%.
[8] Seasonally adjusted unemployment rate for all Canada, March 1980, 7.4%.
[9] Seasonally adjusted unemployment rates as of March 1980.
SOURCES: *The Financial Post,* Third Section, November 3, 10, 17, 24 and December 8, 15, 1979; *The Globe and Mail,* Business Section, January 8-12, 14-18, 1980; and *Financial Times of Canada,* April 14, 1980, p. 8.

Table 1 (Continued)

ECONOMIC INDICATORS OF THE CANADIAN PROVINCES
(all dollar figures are Canadian dollars)

Newfound-land and Labrador	New Brunswick	Nova Scotia	Ontario	Prince Edward Island	Quebec	Saskatchewan
St. John's	Fredericton	Halifax	Toronto	Charlottetown	Quebec City	Regina
P.C.	P.C.	P.C.	P.C.	P.C.	P.Q.	N.D.P.
371,600	71,600	52,800	917,400	5,700	1,357,800	570,100
574,000	701,000	846,900	8,499,800	122,800	6,298,800	957,100
2.4%	3.0%	3.6%	35.9%	0.5%	26.6%	4.0%
6.0%	7.2%	4.4%	5.3%	6.6%	2.9%	6.4%
1.5	9.8	16.0	9.3	21.7	4.6	1.7
$2.7	$4.2	$5.2	$80.9	$0.6	$49.0	$8.6
1.3%	2.0%	2.5%	38.5%	0.3%	23.3%	4.1%
*	1.4%	1.0%	*	3.7%	*	4.1%
$5,313	$5,984	$6,447	$8,735	$5,574	$7,628	$7,432
66%	74%	80%	109%	69%	95%	92.3%
166,000	238,000	306,000	3,847,000	45,000	2,520,000	400,000
9.9%	11.2%	11.3%	13.8%	15.4%	8.2%	16.6%
13.3% [9]	10.7%	10.2%	6.9% [9]	10.6%	9.1%	4.1%
$0.8	$2.5	$2.6	$62.2	(N.A.)	$32.6	$1.6
$1.1	$1.4	$1.3	$17.1	$0.2	$11.9	$2.8
$1.1	$0.5	$0.2	$3.3	*	$2.2	$1.8
$273.53	$256.27	$251.00	$292.81	$207.18	$291.89	$284.75
1,100	1,500	2,800	50,700	300	34,000	8,500
$1.1	$1.6	$2.0	$22.1	$0.3	$15.8	$2.6
(N.A.)	$0.1	$0.2	$4.0	$0.1	$1.9	$2.8
21,249	34,216	36,857	393,892	5,812	(N.A.)	54,764
$0.7	$0.8	$0.9	$9.5	$0.1	$7.7	$1.6
16	23	67	2,041	3	1,904	93

Parties: PC–Progressive Conservative
SC–Social Credit
PQ–Parti Quebecois
NDP–New Democratic Party

remain so in the future. Their weight is not derived wholly from economic factors. Quebec, while a potent economic force in confederation, also has been important because of its persistent desire to be different from the others and because of the leadership in province building it has given over time. Ontario is important, not only because of its size and wealth, but also because much of Canada's English-language publishing is done there and because of its traditional leadership assertion among the English-speaking provinces. Alberta is important, to be sure, because of its recent ascent to extreme wealth, and also because it has assumed a new leadership role in national affairs. The problem is the interests of the three more often are in conflict than in harmony.

Quebec's desires are well known; Ontario desires to keep the status quo of the early 1970s, if not of before then; what Alberta wants, its Treasurer Louis Hyndman has been quoted as saying, is "to change the face of confederation," not only in terms of an increase in tangible benefits (higher oil prices, revised freight rates) but also in terms of political power, so it and the west will have their due share of power vis-a-vis Ontario and the east.[3]

Turning to economic differences, the thrust of surveying any set of economic indicators of the provincial economies in Canada first and foremost must demonstrate the shift of economic and demographic power to the west. If only unemployment figures are used as indicators, the shift becomes obvious indeed. In 1970 there was only a 3.3 percentage point spread between the highest and lowest provincial unemployment rates in Canada; by 1980 that spread had increased to 9.8 percentage points. By individual provinces, the differences were pronounced in 1979: Newfoundland had 13.3% of its workforce unemployed, with the Atlantic provinces as a whole ranging from 11 to 13% unemployed. Except for British Columbia, with unemployment in the 7% range, the percent unemployed declined steadily from region to region as one progresses west. Quebec had an unemployment rate of about 9%, Ontario about 6%, and the Prairie provinces approximately 4%. Alberta's proportion of unemployed was only 3.5%.[4]

"But unemployment rates by no means tell the whole story. In Alberta during the first three months of 1980, 68 out of every 100 Albertans aged 15 or over were working in paid jobs; Ontario ha[d] fewer than 63 out of very 100 adults in paid employment. And the proportion drop[ped] in the less wealthy provinces. In Newfoundland, for example, only 46 out of every 100 adults ha[d] jobs."

Not only does Alberta have the nation's highest proportion of population at work, but also the average Alberta worker's output is much higher than that of the average worker in every other province.

> "Dividing the output of the Alberta economy [in 1980], as estimated by the Conference Board [in Canada], by the number of workers gives an average output in Alberta of $34,459 per worker."

The figure for Canada as a whole is $25,352 and for Prince Edward Island, $15,916. Said differently, the "average Alberta employee produces 40% more than his Ontario counterpart and 116% more than the average employee in Prince Edward Island."

The total size of the provincial economies also reveals striking dissimilarities. According to current projections, "Ontario's $100 billion economy is still the largest. . .next comes Quebec with a $61 billion economy. Alberta has a $35 billion economy. . .and British Columbia comes fourth with $33 billion." The other provinces are far behind. Saskatchewan's economic output is expected to be $11 billion in 1980, Manitoba's $10.4 billion, Nova Scotia's $6.5 billion, New Brunswick's $5.3 billion, Newfoundland's $3.5 billion, and Prince Edward Island's $764 million."[5]

OVERALL TRENDS

If looked at as a whole, the trend toward the west is equally discernible. The most recent available study of the Provinces' economic condition[6] showed that, while the Atlantic provinces had been able to match the economic growth of the country as a whole between 1971 and 1977, looking ahead into the 1980s, the region would continue to be marked by high unemployment rates and "unacceptably large" disparities between it and the rest of the nation.

In the longer term, the region has "exciting development prospects" if adequate investment funds become available. Moreover, the 200-mile fishing limit "could lead, if supported by appropriate policies, to considerable gains for the region, both in terms of output and related employment." The development of the Atlantic fishery, however, well may divide rather than unite the Atlantic provinces. Newfoundland already has taken the position its fish are for its fishermen, setting off a dispute with Nova Scotia fishermen. Manufacturing development and mineral production both are expected to climb as well, but the region's forest-based industries face difficulties, and agricultural development lags.

As for Quebec, the study showed that province's economic position has deteriorated since the mid-1960s, and it predicted there will be little improvement over the next ten years. Among the "basic structural weaknesses limiting its long-term growth potential" were cited "persistent high unemployment, weakness in income and productivity, insufficient private investment, deficiences in the industrial structure, the relative decline of the Montreal urban area, and the existence of considerable regional disparity within the province." The manufacturing sector of Quebec's economy, the report recommended, should be shifted as rapidly as possible to such industries as transportation equipment, machinery, electrical equipment, and chemicals, and away from the traditional industries based on forest resources and from such labor-intensive industries as clothing.

As for Ontario, the study noted its economy has not been performing as well as previously. In fact, on a per capita basis recently it has been the poorest performer of all the provinces.

Finally, the study pointed out the spectacular growth of the western provinces, mainly caused by the oil and gas boom, and predicted that growth prospects for the entire region will remain high, as resources are developed further and agriculture expanded. This study concluded the spinoff from doing so should have a major impact on the manufacturing and service sectors of the western economy in the next decade. The study noted, however, for the west's maximum potential to be realized, there would have to be an "increased level of cooperation and coordination between federal and provincial authorities" in the areas of immigration, trade, manpower, finance, transport, research, and native peoples. The west's growth, however, is uneven. It has been concentrated in the Edmonton-Calgary area of Alberta and the lower mainland area of British Columbia. Manitoba has fallen behind in development compared to Saskatchewan, Alberta and British Columbia because it lacks oil and gas resources. Even with those caveats, "it is now widely recognized, at least in the west, that the economic center of gravity is moving away from central Canada. . . . This trend. . .will be sustained for several years. . . ."[7] The Conference Board in Canada predicted in April 1980 the four western provinces taken together would grow at more than four times the national growth rate of 0.6% during 1980.

Demographically, Canada recently has seen some important changes: population growth is slowing down; the Canadian population is maturing as the babies of the post-war boom grow up—the average age is rising; immigration from abroad into Canada has decreased; and there have been remarkable changes in interprovincial movements. The West has received the most interprovincial migration. For the year ending May 31, 1979, for example, Alberta saw 30,369 new arrivals, as specialists in construction and drilling and persons qualified for computer and service-oriented jobs flocked to Canada's boom area. British Columbia netted 20,111 new arrivals and Saskatchewan 1,711. Only Manitoba in the West was on the losing end, seeing 10,394 of its residents leave for other provinces. The other winners were Nova Scotia and New Brunswick, with 1,384 and 1,333 new arrivals respectively; the other losers were Quebec, 32,110; Ontario, 8,069; Newfoundland, 1,872; and Prince Edward Island, 116.

The Atlantic Provinces

Despite their recent spurt economically, the Atlantic provinces remain underdeveloped as compared with the rest of Canada. The national government's early decision to build a transcontinental railroad, which opened the more alluring central and western portions of the

country to settlement by immigration, and to impose protective tariffs to help industry and commerce develop there, as well as technological change, all operated over time to the economic benefit of central and western Canada and to the detriment of the Atlantic provinces, a fact which no one has been allowed to forget in fiscal policymaking for many years.

Although they are not peas in the same pod, the Atlantic provinces have been deficient in their own energy sources other than coal and in recent years have been faced with steadily rising energy costs. However, the hope of harnessing the Bay of Fundy's tides for hydroelectric power still burns bright in the Maritimes and the discovery of oil and gas off Newfoundland's southeast coast promises to alter the situation drastically, especially if a controversy between that province and the federal government over the control and sharing of revenues from such resources can be resolved. Prime Minister Trudeau has said the question of ownership must be settled by the Supreme Court of Canada. Until that decision is made, Trudeau has offered an agreement which would assume federal ownership but award revenues accruing from the exploitation of resources 75% to the provinces, 25% to the federal government. Nuclear power development also has been undertaken in the Maritimes where the Province of New Brunswick is constructing a nuclear power plant at Point Lepreau. The manufacturing level throughout the region is low (though it has been rising slowly in New Brunswick and Nova Scotia, which alone among the four provinces has attained a low level of economic diversity). Per capita income is low and the unemployment rate, as already indicated, is high. They still focus their energies on agriculture, forestry, and fishing (although New Brunswick and Newfoundland have been developing their mining industries). Tourism is an important factor in all the Maritime province economies, less so in Newfoundland. With small populations, they are marked by small markets for their goods at home and expensive transportation links to outside markets. Many of their communities are oriented around a single industry. As a whole, they lack adequate indigenous capital for development purposes and to sustain a high level of research and development activity.

What has kept the wolf from the Atlantic provinces' door has been a heavy flow of transfer payments from the central government in Ottawa, payments both to individuals and to governments. In particular Ottawa's equalization program accounts for approximately one-quarter of total revenues from all sources for each of the four Atlantic Provinces. What Premier John Buchanan of Nova Scotia said in 1979 applies to all the Atlantic Provinces: transfer payments, he said, "are the life-blood of Nova Scotia. Without them we'd be dead ducks."[8] In addition, the central government devotes much of its regional economic development expenditures to the region (a federal-provincial Small Industry Financial Assistance Program was initiated in 1979 in New Brunswick, for example, to loan money to firms with less than $50,000 in annual sales) and it maintains large defense and other federal establishments there. (The Trudeau government began decentralizing federal activities from Ottawa; a number of federal agencies were moved to the Atlantic region.)

It does not stretch the truth to say the Atlantic provinces have become economic dependents of the central government. Theirs are "economies of dependency."[9] Only Newfoundland, with the prospects put before it by the discovery of the Hibernia well, has much immediate hope for moving from "federal dependency into a golden age of self-reliant wealth"[10] (though if Nova Scotia can develop its considerable gas potential around Sable Island it too may be able to move toward less dependency).

A special note should be made about the French-speaking population outside of Quebec. According to the 1976 Census, 898,000 persons whose mother tongue was French lived elsewhere in Canada. Of these, 462,000 were in Ontario. The French-speaking population of New Brunswick, Nova Scotia, and Prince Edward Island are referred to as Acadians. The Acadians differ in many ways from the Quebecois. In New Brunswick, where the 1976 Census showed 224,000 Acadians were concentrated primarily in the seven most northern counties of the province, an opposition party, the Parti Acadien, has been active. It advocates separation of the Acadian part of the province from the rest of New Brunswick, but not from

Canada itself. Currently, the Acadians are demanding more autonomy in administering schools, more jobs in the provincial civil service, and faster implementation of bilingualism policies. The much smaller Acadian communities in Nova Scotia and Prince Edward Island are watching what their neighbors in New Brunswick are doing with interest. What the long-term impact of Acadian agitation might be on the area's economy is hard to foresee.

Quebec

Next to the Atlantic Provinces, Quebec consistently has experienced the highest unemployment rate in Canada. Although its economy is diversified and has a large manufacturing sector, basically in paper products, furniture, clothing and shoes, its technological base is old, and it has suffered heavily from competition from outside. Though it is an oil-importing province, it does have abundant hydroelectric resources at its disposal. "The first phase of the James Bay project, when completed in 1985, will add 12,000 megawatts of power to the present 15,000 megawatts. . . . By the end of the century, another 35,000 megawatts [could] be harnessed from Quebec's waters."[11] Realizing these goals will give a new strength to the Quebec economy. There is also a good deal of uranium potential in the James Bay territory, which if exploited should provide another boost to the economy.

Even so, Quebec's overall economic position in recent years has put it on the receiving end of large income transfers from the federal government. Equalization payments alone amounted to about 10% of the province's annual revenues in the late 1970s. In addition, through programs of the Department of Regional Economic Expansion and other programs, the federal government has made grants and loans to the province.

What sets Quebec apart from all the other provinces is its persistent demands for greater autonomy. These culminated in the November 1976 election of a Parti Quebecois government which pledged itself to hold a referendum on its proposals for Sovereignty-Association—a promise carried out in May 1980. Most Canadian observers believe the Parti Quebecois has given Quebec good government. However, because of the uncertainty created by its proposals for Sovereignty-Association, its term in office clearly has been marked by a downturn in private sector investment which has harmed the economy of the province in general, and Montreal in particular.

The provincial government plays a dominant role in the province's economy through a wide range of crown corporations (which make the province itself the largest employer of labor), through provincial tax incentives and subsidies, and through regulation and control.

However, the province now is far better equipped to move forward economically than it used to be. Since the Quiet Revolution of the 1960s, Quebec's universities have concentrated on producing first-rate managers trained for business and government, so the province's own talent pool is larger than it ever has been.

Ontario

Ontario long has been regarded by the other provinces with jealousy, while it has been inclined to think of itself as first among equals. It is used to being at center stage in Canada and to playing a pivotal role in determining the country's policies. The primary reason is that Southern Ontario is the industrial heart of Canada and economically the most broadly-based area of the country. Its central location gives it a great advantage in both the Canadian market and much of the United States. It also has benefitted greatly over time from the federal government's tariff, immigration, and transportation policies. Although its automobile and auto-parts industries loom large on the economic scene, it produces a wide range of products, and it also has thriving agricultural, forestry, and mining sectors (the latter two are concentrated largely in the otherwise underdeveloped northern part of the province). Ontario has become Canada's industrial heartland chiefly on an energy base of imported coal, oil, and gas. It has developed a hydroelectric system of its own, however, as well as one of the most advanced nuclear power bases in the world.

Out of its riches, Ontario over the years has made the largest input of all the provinces into the federal government's tax coffers, while receiving comparatively little federal largess in

direct return. From fiscal 1977–78 on, however, the province has been technically, at least, a "have-not" province as resource revenue deficiencies wiped out surpluses in the other revenue categories upon which the current federal equalization scheme is based (see *Chapter* 5 of this study for an explanation of the equalization scheme). If the western provinces eventually receive a higher price for their oil and gas, even if not the world price, Ontario may have further difficulties. As James Gillies, former Prime Minister Joe Clark's senior policy adviser, commented late in 1979, "with the energy rich west and with apparent huge oil discoveries off the east coast, Ontario could be perceived as the poor boy by 1985."[12]

The Prairie Provinces

Although they constitute a single region geographically, and though they have been treated historically as a group, in recent years the differences among the Prairie Provinces have become more evident than the similarities. Of the three, Manitoba, as already noted, is in the weakest economic position because it alone has not been a significant producer of either oil or gas. The provincial economy is a mixture of agriculture (mostly grains), manufacturing, base metals, and hydroelectric energy. Indeed, Manitoba has an abundant supply of hydroelectricity; besides meeting internal needs, between April 1978 and March 31, 1979, Manitoba Hydro, the provincially owned and operated power company, sold $58.3 million worth of electricity to the United States, $18.3 million to Ontario, and $5.3 million to Saskatchewan. The present Progressive Conservative government has frozen rate increases for hydroelectricity to aid in developing manufacturing within the province. In 1979 the Manitoba government began a joint program with the federal government calling for $64 million to be spent over a five-year period to aid manufacturing companies in a variety of ways.

Saskatchewan is in on the oil bonanza of western Canada, although to a lesser extent than Alberta. In addition, it boasts a flourishing agricultural sector (chiefly grains—wheat predominates—and live stock) and a burgeoning mining industry (potash and uranium). Its manufacturing sector is relatively weak. Under the long aegis of the New Democratic Party leadership, a pervasive and pivotal public—i.e., provincial government—presence in economic management has developed and is maintained. The province's 17 commercial crown corporations are predicted to do "the bulk of the capital spending" in the province in 1980.[13] A sort of overall "holding company" for those corporations is the Crown Investments Corporation, which exercises general supervision over them as well as over the extensive provincial interests in private companies in the province. In addition, many expansion plans in the province are scrutinized by the provincial government; "Saskatchewan wants to control the phasing in of all resource projects to ensure an oversupply does not force prices below production costs."[14] Saskatchewan's overall economic position is currently one of the best among the Canadian provinces—quite a change for the province, which next to the Atlantic Provinces, was for many years at the lower end of Canada's economic scale. Provincial revenues from oil, potash and uranium are predicted to reach approximately $500 million in fiscal year 1980; out of those revenues, the province has established the Saskatchewan Heritage Fund, which had assets amounting to $600 million at the end of fiscal year 1978–79. Most Heritage Fund earnings are paid in the form of "dividends" to the province's consolidated fund. Early in 1980, Saskatchewan announced plans to establish a Saskatchewan Energy Security Division within the fund and to endow it with $100 million.

It is Alberta, however, which is the golden province of the West, and of all Canada. The province always has produced coal, but the discovery and rapid exploitation of oil and gas in great quantities enabled it to zoom from near-poverty levels only two generations ago to economic heights envied by governments throughout the western world. Alberta currently produces 85% of Canada's oil, and the province has about the same percentage of that production from crown—i.e., provincial—lands. By 1978, Alberta's income from hydrocarbons alone had multiplied 16 times over that of 1970, from $218 million to $3.5 billion. Under Alberta law, the province receives roughly 45% of oil and gas revenues. Because

of those revenues, Alberta's tax rates in conventional tax fields are the lowest in Canada. And from 30% of those revenues Alberta has established the Alberta Heritage Savings Trust Fund, which had attained assets of nearly $6 billion by the end of 1979. Through that fund, according to Richard Osler, Alberta is able to invest in internal development. Through the Alberta Investment Division of the Fund, as of October 1979, it put about one-third of its holdings into the Alberta Housing Corporation, the Alberta Home Mortgage Corporation, the Alberta Agricultural Development Corporation, the Alberta Opportunity Company, the Alberta Energy Company, and Syncrude.

Alberta also makes loans (through the Canada Investment Division) to other Canadian governments (to date, Newfoundland, New Brunswick, Nova Scotia, Quebec, and Manitoba) or to agencies guaranteed by governments for internal development projects, to launch capital projects (public and recreational facilities in the province), and "quality of life" projects (medical, agricultural, and heavy oil research), and still has a large amount of money left to finance provincial crown corporations and invest in marketable securities and private corporations. "With the fund projected to balloon to more than $20 billion by 1985, assuming domestic oil and gas prices move to world levels and present revenue sharing agreements remain, Alberta could be sitting on a financial time-bomb if it can't find palatable ways to use the money."[15]

In many ways, however, Alberta's economic base is not well balanced. Alberta still is a have-not province in some sectors—it "needs and wants a better economic mix that is not so dependent on nonrenewable resources."[16] If there should be "a major breakthrough in other energy forms, such as solar power, Alberta's one major resource will lose its importance in a heavily industrialized national and international economy."[17] Even full exploitation of the province's oil reserves awaits development of technology to permit more efficient extraction of oil and gas than is possible now. "Of the 37 billion barrels of conventional crude oil in Alberta, for example, only seven billion barrels have been produced and only five billion more can be tapped through current methods."[18]

The province continues to be dependent on imported manufactured and processed goods (manufacturing accounts for only 5% of Alberta's economic base) although it has a strong agricultural sector (grains, livestock and sugarbeets), and extensive forest resources. Just recently, the government of Alberta "has been encouraging new investment in [the province] as a means of diversifying the economic base through a number of programs and incentives, such as sharp reduction [in 1979] in the small business tax rate," a market development assistance program, a program to help small and medium-sized manufacturing companies with product design, and a concentrated effort to develop a strong research and development center in the province (a portion of the Heritage Fund monies will be devoted to the latter).[19]

British Columbia

Canada's western-most province also has a resource-based economy, though it is more diversified than Alberta's. The forestry sector (the provincial government owns 95% of the province's forest reserves) accounts for about half of each dollar earned in the province; the mining industry (lead, zinc, aluminum, and an unknown quanitity of uranium reserves) is also of key importance; tourism is important, as is the energy sector (chiefly gas, coal, and hydroelectricity) which makes British Columbia the second richest energy province in Canada. If offshore drilling is successful there, the province's economy would receive a further boost—but activity is much less than it is off Canada's east coast. At present, natural gas exploration in the Northeast is particularly promising. Next to forestry, fishing is the chief industry in the province. Manufacturing, except in wood and paper products, is not well developed. Since only about 5% of the area is arable, agriculture does not constitute a very large proportion of the province's economy. Although the province's economy generally is regarded as buoyant, it is an economy highly dependent on American and overseas export markets.

The North

The Yukon and Northwest Territories, stretching from the Alaska border north and

east over Hudson Bay, comprise the Canadian North. It should be noted, however, that the northern part of the provinces is much less developed than the narrow strip of Canada along the United States border. Thus northern development in the broad sense must include the provincial north as well as the further north federal territories. Indeed, much of northern Canada still is administered as federal government territories (and thus was not included in the review of the provinces). Yet, the day of provincehood may be approaching, and the tremendous potential of the north in Canada's overall economic future must be dealt with, if only briefly.

The immediate opportunities offered Canada by developing the north include large scale oil and gas reserves, the prospect of major hydro and thermal electric power development, and the exploitation of several known large mineral deposits.

A recent study of the north noted that in the past, the major developmental question was "accessibility" of the resources.

> However, today, the critical question faced by metropolitan decisionmakers relates to the developmental consequences of accessibility on the northern landscape and the inhabitants, the non-native and native people [the Dene (Indian) nation, the Inuit (Eskimo), and the Metis (non-status Indians)]. Despite the anxiousness [of] metropolitan leaders to make a decision [to expolit the north's resources], northerners argue that prior economic, social, and environmental impact studies should take place before any decision is reached. . . . Furthermore, the issue has become even more complicated by the fact that the native people have realized the future consequences of resource development, and they have effectively organized themselves to raise the issue of land claims [and call for their] settlement before resource exploitation. . . takes place. . . .[20]

Those difficulties notwithstanding, Canada undoubtedly will accelerate development of the north in the 1980s to unlock the treasures that lie there. Whether the federal government will yield any or much of the near total control it has exercised in the past over the pace of development, much less its ownership of the natural resources, remains to be seen. Although movements toward provincial status have been launched in both the Northwest and Yukon Territories, there does not seem to be very strong support for them. In any case, it generally is expected the federal government will move gradually on the matter. In the case of the Northwest Territories a priority issue is to make progress in settling native land claims. A good start already has been made in that direction.

This brief survey suggests the very real differences in economic position among the areas of Canada. When differences in language, religion, customs, and outlook are added to the ethnic differences, the entrenched regionalism of Canadian life becomes more obvious. As already suggested, all these differences now are sharply defined politically.

> For Ontario and the Maritimes, the Liberals are the national party, the defenders of their economic interests against the growing strength of the west, and their political interests against the danger of separation. For the west, the Liberals are the instrument of central Canadian regional interests.[21]

How Canada weathers "the crunch" will be the central question of the 1980s.

FOOTNOTES

[1] Hockin, *Government in Canada*, p. 36.

[2] Douglas A.L. Auld, *Contemporary and Historical Economic Dimensions of Canadian Confederation*, Occasional Paper No. 12, Canberra, Centre for Research on Federal Financial Relations, The Australian National University, 1979, pp. 11–12.

[3] Malcolm, "Canada Confronts Its West," p. 28.

[4] These figures are from *The Financial Post*, February 16, 1980, p. 8.

[5] Don McGillivray, "Figures Conceal the True Story," *Financial Times of Canada*, April 14, 1980, p. 8.

[6] The study was conducted by the federal Department of Regional Economic Expansion and was reported in summary in *The Globe and Mail*, February 22, 1980, p. 84.

[7] Peter Cook, *The Financial Post*, January 5, 1980, p. 2.

[8] Quoted in *The Christian Science Monitor*, Special Section on Nova Scotia, June 6, 1979, p. 81.

[9] The phrase of William J. Woodfine, "Economies of Dependency," *Report*, May 1979, p. 29.

[10] Peter Foster, *The Financial Post*, February 9, 1980, p. 1.

[11] *The Globe and Mail*, December 4, 1979, p. B1.

[12] Quoted by Lawrence Martin, *The Globe and Mail*, November 2, 1979, p. B2.

[13] Donald Humphries, *The Globe and Mail*, January 15, 1980, p. B6.

[14] *Ibid.*, p. B1.

[15] Richard Osler, *The Financial Post*, October 27, 1979, p. 516. See also the supplement to *Canadian Public Policy VI*, February 1980, which is devoted in its entirety to "The Alberta Heritage Savings Trust Fund. An Overview of the Issues" and Gordon F.N. Hearn, "Excursus on Two Recent Conferences: The Alberta Heritage Savings Trust Fund and Power Shift West: Myth or Realty?", a paper presented at the Annual Meeting of the Canadian Sociology and Anthropology Association, Montreal, Quebec, June 4, 1980.

[16] Richard Osler, *The Financial Post*, December 8, 1979, p. 53.

[17] Jeff Sallot, *The Globe and Mail*, December 11, 1979, p. B4.

[18] Roberta Steklasa, *The Financial Post*, November 10, 1979, p. 20.

[19] Jeff Sallot, *The Globe and Mail*, January 17, 1980, p. B4.

[20] Paul M. Koroscil, "Introduction: The Canadian Northland," in *The Canadian North: Frontier or Homeland*, *Canadian Issues*, Vol. 2, No. 2, Willowdale, Ontario, The Association for Canadian Studies, 1979, p. 7.

[21] Richard Simeon, "And Now the Crunch," *Report*, April 1980, p. 22.

Chapter 3

Cities In The Canadian Mosaic

METROPOLITAN CENTERS

Another aspect of regionalism in Canada must be examined, albeit briefly—the impact of the metropolis or city on regions. As early as 1954, the distinguished Canadian historian, J.M.S. Careless, noted the emergence of the regional city dominating "not only its surrounding countryside, but also other cities and their countrysides, the whole area being organized by the metropolis, through control of communications, trade, and finance, into one economic and social unit. . . ."[1] In today's Canada, there are the two traditionally dominant national metropolises: Toronto, including the Hamilton and St. Catharines-Niagara areas, [the extended Toronto metropolitan area approached four million (3,634,393) in population in the 1976 census] and Montreal (2,803,485 in 1976).[2] About one in every four Canadians lives in one or the other of those two metropolitan areas. As national cities, their influence extends not only over the immediate region in which they are located, but also over the entire country. In addition, there are provincial metropolitan areas—regional cities—which have a more limited range of influence but whose presence is felt increasingly in Canadian economic life and in governmental decisionmaking: in British Columbia, Vancouver (1,166,348 in 1976); in Alberta, the

Edmonton-Calgary nexus (1,014,145 in 1976); in Manitoba, Winnipeg (578,217 in 1976); in the Maritimes, Halifax (267,991 in 1976); and in Newfoundland, St. John's (143,390 in 1976). The Ottawa-Hull areas (693,288 in 1976) must be noted as well, although it is hard to classify that area as a regional city like the others.

In addition to the national and regional cities, a number of other cities (Victoria in British Columbia; Regina and Saskatoon in Saskatchewan; Kitchener, London, Windsor, Sudbury, and Thunder Bay in Ontario; Quebec City in Quebec; and Saint John in New Brunswick) have been growing rapidly and are exerting their own pressures on their provincial governments. All of these urban areas have developed their own momentum, a momentum which still is mounting and whose force is hard to quantify. The regions they dominate look to these regional cities not only for economic leadership, but also for social, political, and cultural direction. They control "the flow of capital, entrepreneurship, technology, and labor—the factors of production—that are used in regional development. In return, [they receive] raw materials and profit, as well as people who migrate to [their] center[s] in search of greater well-being." Their "social values, business practices, and communications techniques" become those of their regions.[3] Over time, the regional cities have worked, Jane Jacobs argues, "primarily as service centers for the exploitation of resources from their hinterlands. . . [rather than] as creative economic centers in their own right. . . . Canadian regional cities boom while the exploitation of their hinterlands is booming. . . but then characteristically stagnate when the resource exploitation reaches a plateau."[4]

Although the regional cities have much in common, each has its own personality. And all of them must be recognized as power centers. On the one hand, by their distinctiveness they serve to heighten provincial/regional consciousness and to emphasize regional differences; on the other hand, the interests of these regional cities do not coincide necessarily with those of the provinces in which they are located. Indeed, there is some evidence that a protest movement of the hinterlands against their regional cities is developing. "It is [their] economic power, particularly that which is extended or supported by political decisions," noted L.D. McCann, that generates regional anger against the metropolis.[5] Today, some students contend the resentment felt by their hinterlands against urban centers exerts additional strains on the fabric of Canadian federalism.

MUNICIPAL GOVERNMENT IN CANADA

So far, however, the metropolis has not been very successful in winning recognition in the fiscal arrangements arrived at by the provincial and federal governments. For the most part the intergovernmental consultation process so central to policymaking in Canada (see *Chapter IV* of this report for discussion of that process) is confined to the federal and provincial levels. Pretensions of the regions, provinces, and groups are directed at legislators and bureaucrats in the federal and provincial governments. However, the local government level delivers important government services and is supported by one of the strongest property tax systems in the world, as well as by provincial grants, some of which are unconditional in nature. Indeed, generally local government in Canada is vastly more important than it is in Australia, and in many ways it is stronger than in the United States. With the possible exception of Quebec, local government is subject to extensive provincial control; on the other hand, Canadian municipalities exert considerable influence on provincial policymaking.

Under Section 92 of the BNA Act, as noted earlier, power over municipal institutions in the provinces was confined exclusively in the provincial legislatures. Like American local government, municipal governments in Canada are thus creatures of provincial governments, having only those powers and duties assigned to them by provincial law or practice. "Home rule" has not won a following in Canada; the provinces for the most part assume it is their right and duty to speak for their urban citizens and for their local governments as well in making most of the policy decisions that affect them.

As might be expected in such a context, the character, duties, and powers of the roughly

4,200 municipalities in Canada vary extensively from one province to another and even within individual provinces. Such variation frustrates attempts to present a unified portrayal of Canadian municipal government and also to develop a national policy to deal with the problems and needs of Canada's urban sector.

But if there are ten distinct "systems" of municipal government in Canada, there are many commonalities among them:

1. Municipalities fall within various categories such as: city, town, village, rural district, township, county, and regional government.
2. The general provisions of a provincial municipal act ordinarily constitute the legal base of a municipality, but a few cities have special charters.
3. In addition to a charter, most provinces' statutes and regulations further define the authority of municipalities in the functional areas assigned to them, set out the conditions under which certain forms of provincial financial assistance will be made available, and provide for a large degree of provincial regulation and control over municipal activities. Over the years, the number of provincial statutory and supplementary regulations applying to municipalities has increased geometrically, and provincial-municipal relations have become complex and multiform.
4. Provincial-municipal relations have been institutionalized in the provinces through departments of municipal affairs and, in the provinces that utilize them, through departments or ministries of intergovernmental affairs. Provincial fiscal officers are becoming increasingly important. Where conditional grants are involved, a variety of other provincial departments come into play as well.
5. A municipality is seldom the only local government authority within its geographical limits. Frequently, local responsibilities in particular functional areas are assigned elsewhere by the province. For example, in every province public education is administered through separate school boards, the usual responsibility of the municipality being to provide the tax funds necessary for school operation. Other areas of activity frequently administered by special districts or boards are hospitals, police, public libraries, parks, public health, conservation, and community planning. In general, counties do not occupy the important place in the Canadian governmental structure they do in the United States.
6. Municipal governments, following the American reform pattern at the turn of the century, generally have been depoliticized, which tends to put them outside the political channels of policymaking and place them instead in the provincial bureaucratic channel.
7. To an increasing extent, regional governments are being superimposed on urbanized areas by provincial legislatures to meet area-wide needs not being met by individual municipalities. The best known examples are Metropolitan Toronto and Winnipeg, but regional governments have been established in metropolitan areas in Ontario, British Columbia, and Quebec. By now, "regional governments are. . . understood not as innovative experiments but as a halfway step, a political compromise at the provincial level, on the path to municipal integration."[6]
8. Most of the major municipal governments in Canada came into existence prior to World War II, with the result that their authority and structure are often not in keeping with present-day realities. For the most part, they originally were assigned a "community housekeeping role," their main concerns being maintaining and operating the local physical plant, roads, water supply, sewage systems, fire protection, etc. Local safety services also were provided, and municipal governments

were expected to support libraries as well as the public schools.

The process of urbanization and the dramatic surge in urban population across Canada in recent years has changed the context of municipal government drastically. There has been a steady increase in the number and range of services municipalities have been called upon to perform. At the same time, under the post-war welfare state as it has developed in Canada, governments at higher levels have increasingly placed an administrative load on local authorities.

All too often, new responsibilities have been placed on municipal governments without providing sufficient revenue sources to support them. Almost all municipalities in Canada have been experiencing financial problems. As in the United States, the real property tax constitutes the chief revenue source for Canadian municipalities. Personal property taxes and poll taxes are not levied but considerable revenue is derived from a unique type of property tax, levied on occupants of business property, and known as a "business occupancy tax." Local improvement levies and special assessments, license and permit fees, interest and tax penalties, and income from municipal enterprises make up the rest of the municipal revenue potential. The municipalities regularly resort to borrowing as a means of financing capital undertakings.

9. All provinces continually are faced with pressure from municipal governments and municipal residents for a greater share of provincial revenue. The provincial governments are aware of the desirability of perpetuating local participation and control and generally have refrained from exercising one option open to them (an option widely used in Australia), that of taking over existing or developing new services at the provincial level. However, some services in the area of welfare and administration of justice have been taken over. At the same time, they have found it hard to yield new tax sources to municipalities. For the most part, they have opted to make grants-in-lieu of taxes for provincial property within municipal boundaries and a variety of other grants to municipalities and to set up provincial loan funds for meeting municipal capital expenditures.

Provincial transfers to municipalities are especially "important, constituting 50% of total local government revenue from all sources. . . in 1977. In other words, on average, Canadian local governments depended for revenue as much on provincial transfers as they did on revenue sources under their own control (such as the property tax)" during that year. "These transfers constituted 22% of provincial expenditures in that year (or almost the same amount as the provincial governments received in federal transfers). The importance of these provincial transfers to local governments has grown significantly in recent years, rising from only 25% of local revenues in 1963 to 43% in 1970 and then growing more slowly to the 50% level by 1975."[7]

"Provincial grants have been chiefly conditional (special purpose), where the province agrees to contribute to the support of particular municipal service(s) if certain standards are met and procedures are followed. In recent years, grants for education have been the most important by far, constituting 62% of all provincial grants to Canadian municipalities in 1976. Most conditional grants are "'closed' (. . . their amount. . . determined by the province), not 'open' (a fixed percentage of recipient expenditure) as [is] the case with the major federal-provincial conditional transfers."[8]

Other provincial transfers to municipalities are unconditional (general purpose) grants, under which the province supplies funds on a per capita or other basis to be used more or less at the discretion of the local authorities.

In Saskatchewan, for example, in 1977–78, a total of $39.1 million was distributed to municipalities in the form of conditional grants and $22.1 million in the form of unconditional grants. The former were for such as police, water and sewer, neighborhood improvements, road maintenance, and cultural and recreational activities; the latter include equalization and per capita grants, the equalization grants being paid on a formula basis to municipalities in the province.[9] *Table 2* shows the division of total provincial transfers between general purpose and specific purpose grants over the 10 year period 1967–76.

As Richard Bird concludes, provincial-local transfers demonstrate growing centralization "in the sense that, increasingly, local governments are acting more as agents—spending provincially provided funds on provincially designated activities—than as independent decisionmakers."

A closer look at the situation in Ontario tends to confirm the impression that provincial influence over local finances has increased significantly in recent years. The increased importance of grants is only one way in which provincial control is exerted over local finance in Ontario. There is also tight provincial control over municipal borrowing, provincial control over the major tax base (real property assessment) as well as over the structure of property tax rates (e.g., the degree of discrimination among types of property), frequent and arbitrary local government restructuring, and numerous provincial requirements controlling local expenditure patterns (e.g., in education). In Ontario at least, the "'provincialization' of municipal government has gone a long way. . . . [Indeed, it] is more misleading than not to consider local government as an 'independent' level of government."[10]

What is true of Ontario applies in general to the other provinces. On the other hand, recently there has been a trend towards the increased use of general purpose (i.e., unconditional) grants by the provinces for purposes other than education. Quebec recently has undertaken a spectacular reform of its local government finance. As of 1980, Quebec gave virtually the whole property tax field to municipalities. This was done by transferring most of the school portion of the property tax to municipalities, decreasing provincial grants to municipalities, and by raising provincial grants to school boards. The new arrangement could give unprecedented autonomy to municipal government in that province. Furthermore, the fact that federal-provincial transfers are increasingly unconditional is influencing the provinces to move in the same direction with their municipalities.

While provincial grants have been increasing and now constitute roughly half of municipal revenues, the grants have not been based "on any set of objective criteria, but on annual negotiations between the two levels of gov-

Table 2

PROVINCIAL TRANSFERS TO LOCAL GOVERNMENTS, 1967–76 (in millions of Canadian dollars)

Year	General Purpose[a]	Education	Other Specific Purpose	Total
1967	$ 231	$1,820		$2,051
1968	232	2,310		2,542
1969	241	2,619		2,860
1970	298	$2,272	$ 624	3,194
1971	361	2,641	1,076	4,078
1972	410	2,674	1,351	4,435
1973	680	2,878	1,306	4,864
1974	823	3,604	1,510	5,937
1975[b]	1,066[b]	4,082[b]	1,678[b]	6,826[b]
1976[b]	1,140[b]	4,644[b]	1,733[b]	7,517[b]

[a] "General purpose" includes grants-in-lieu of taxes.
[b] Figures for 1975 and 1976 are estimates.
SOURCE: Statistics Canada data as compiled in *Provincial and Municipal Finances*, Toronto, Canadian Tax Foundation, biennial, Chapter 7.

ernment or on provincial discretionary judgments. . . .This type of annual practice has created uncertainty and inflexibility in municipal finance management" and reemphasizes the lack of municipal autonomy throughout Canada.[11]

Very recently, most of the provinces have been faced with the necessity of reexamining their financial relations with municipalities. In some provinces the total amount of grants to local governments has begun to be tied to the yield of specified provincial taxes; and a number of provincial grants to local government have incorporated equalization or fiscal need components. Several provinces have instituted revenue sharing programs. Quebec, Ontario, Saskatchewan, Manitoba and British Columbia have instituted programs which "provide municipalities with a defined proportion of provincial revenues collected." Saskatchewan's program rolls certain former conditional and unconditional grants—but not all of them—into revenue sharing, those rolled in being different for rural and urban municipalities in the province. Two pools, the size of which is determined annually, have been established, one for urban municipalities as a group, the other for rural municipalities. Annual increases in the pools (set at $35.4 million for the urban group and $26 million for the rural group for 1978–79) are "determined according to an 'escalator' that reflects provincial economy growth. (The escalator is tied to the growth rate of the provincial tax base). Finally, the two pools are distributed among their respective municipalities according to two specific formulas. Grants for rural municipalities are distributed in much the same way as previously. The grants for urban municipalities are distributed under a three-part formula: a flat amount per community, a per capita amount, and a "'foundation grant' which. . . recognize[s] special local circumstances with respect to costs and services."[12]

In 1980, Saskatchewan began to index its revenue sharing program with municipalities.

10. For its part, the federal government has directly assisted municipalities by making grants in lieu of taxes on federal property within municipal boundaries. Ottawa announced early in 1980 a new municipal grants program, to be phased over a four-year period, to broaden the range of federal properties on which grants in lieu will be paid. Virtually all federal holdings in urban and rural areas, including those of federal crown corporations, will be included in grant calculations. The federal government also indirectly has affected municipal economies (and land use planning) by establishing harbors, airports and rail installations, military bases, post offices, etc. Other federal programs in the areas of housing, industrial development, urban renewal, and home insulation have been instituted, as have programs specifically directed at strengthening the municipal infrastructure. The amount of money granted to local governments under the latter programs always has been very small and for the most part has been channeled through the provinces. An example of a federal program directed toward municipalities is that signed in 1979 between the federal government and Quebec, under which the federal government will make grants of over $47 million in 1979 and $78 million in 1980, which, added to from provincial grants, will permit the improvement of community facilities in the province, assist in urban park development and in constructing high density housing, go toward installing water systems, and assist in building water purification plants.

11. In 1970, the federal government created the Ministry of State for Urban Affairs, which was designed to coordinate federal programs affecting urban areas and

to serve as the main contact point within the federal government for the provinces concerning urban matters. The provinces did not respond well to the new ministry's existence, feeling it infringed upon their total responsibility for municipal instititution as provided by the BNA Act. "Although there was little doubt that the federal government exercised major direct and indirect responsibilities that affected urban areas, there was considerable unease lest the federal government enter the field. . . and, either through direct spending or conditional grants, stall and frustrate provincial priorities and programs."[13] There was also concern that federal policies and programs would not recognize that urban problems and issues differed in different regions of Canada. Provincial opposition eventually led to abandonment of the Ministry.

12. The early 1970s also saw the emergence of an institutionalized pattern of what was called "tri-level" consultation. These consultations were to be held on a national and regional basis. They involved the federal government (through the Ministry of State for Urban Affairs, referred to above) and the provincial and municipal governments in discussing the problems facing cities and in considering possible solutions to them. The hoped-for outcome was to provide the national government with policy directions that would come from the grass roots rather than being devised wholly in Ottawa. Like the Ministry of State for Urban Affairs, resistance by the provinces to this "intrusion" of the federal government into provincial affairs led to the demise of the process after only a few attempts to make it work. One result of the effort, however, was to lead some of the provinces to establish either formally or on an informal basis some sort of provincial-municipal consultative forum within the province.

13. The fact that municipalities are creatures of the provincial governments, and the provinces' desire to keep it that way, so far have resulted in the provinces working to limit the development of direct relations between the federal and municipal governments.

In sum, urban centers and the municipal governments which represent them have not become a part of the overall intergovernmental policy consultation process at the national level. There are no Canadian equivalents of the American local government interest groups to press their cause in national policymaking. Put more exactly, the Canadian counterparts to the U.S. Conference of Mayors, the National League of Cities, and the National Association of Counties—the Federation of Canadian Municipalities and the Canadian Association of Municipal Administrators—have not used techniques similar to those the American groups have employed to be effective in the policy process. To the extent municipalities (and other local governments) are represented in that process, it is through the provinces. (To be sure, if what has occurred in the United States—state governments failing to respond adequately to the needs of the central cities plagued with racial and economic problems—were replicated in Canada, municipalities might well have found ways to be heard in Ottawa.)

FOOTNOTES

[1] J.M.S. Careless, "Frontierism, Metropolitanism, and Canadian History," *The Canadian Historical Review*, 35:17, 1954.

[2] Jane Jacobs argues Montreal has lost its status as a national metropolis and must now be rated only as a regional city. Jane Jacobs, "The Question of Separation: A Tale of Two Cities," *The Canadian Forum*, February 1980, p. 90.

[3] L.D. McCann, "The Myth of the Metropolis: The Role of the City in Canadian Regionalism." A paper presented to a seminar at Duke University, February 12, 1980, pp. 2 and 5.

[4] Jacobs, "The Question of Separation," p. 90.

[5] McCann, "The Myth of the Metropolis," pp. 5–6.

[6] James Lightbody, "Local Government in Canada," *Canadian Public Administration*, 22: 651, Winter 1979.

[7] Richard M. Bird, *Financing Canadian Government: A Quantitative Overview*, Ottawa, Canadian Tax Foundation, Financing Canadian Federation: 1, p. 61.

[8] *Ibid.*

[9] See O. Yul Kwon, "Revenue Sharing as an Improvement in Provincial-Municipal Relations in Canada: An Evaluation of Saskatchewan Revenue Sharing," *Canadian Tax Journal* 27: 576, September/October 1979.

[10] Bird, pp. 61–62.

[11] *Ibid.*

[12] *Ibid.*, pp. 577–578.

[13] H. Ian Macdonald, "Federal-Provincial Relations in Canada," A paper presented to the International Seminar on Cooperative Federalism, Instituto di Studi Sulle Regioni, Villa Serbelloni, Bellagio, Italy, April 23, 1976, p. 3.

Chapter 4

Intergovernmental Fiscal Policymaking

"The story of intergovernmental fiscal relations in Canada is largely that of the transfer of funds from the Government of Canada to the various provincial governments. It has been one of a continuing attempt, if of varying intensity, to provide a structure in which the realities of nationhood could be adapted to a federal system. To an important degree, this has been a struggle to develop a workable fiscal balance between the needs, the ambitions, and the capabilities of the two levels of government, the federal government and the governments of the provinces."[1] To a large extent, however, the formal structures of Canadian government have not been the arena in which that struggle has occurred. Rather, it takes place, as already has been suggested, within an elaborate structure of intergovernmental consultation that has been built up in Canada over the years. As Richard Simeon has noted, "Intergovernmental relations expressed mainly through. . .federal-provincial conferences are simultaneously the arena within which the multiple tensions of Canadian life are expressed and fought out, and the forum which is expected to work out and resolve those tensions."[2]

FORMAL STRUCTURES OF POLICYMAKING

The Canadian government's formal structure consists of 11 competing legislatures, ten pro-

vincial and one national, operating under the parliamentary system. There are no great differences between the federal Parliament and the provincial legislatures. They follow many of the same traditions and rules, except all the provinces have single chamber legislatures, which generally makes for somewhat less formal procedures than are adhered to in Ottawa. Similarly, the cabinets, the Prime Minister and premiers, the ministers and departments, play much the same roles at both levels of government (though it would be too much to expect the same departmental structure in all 11 governments).

The element theoretically giving cohesion to a parliamentary governmental system is the political party mechanism. Strong executive leadership within the dominant party and party discipline in following that leadership in enacting legislation reputedly is the dominant characteristic of parliamentary systems. In Canada, however, the party system no longer plays the role of achieving cohesion in national policymaking. For some time, and especially at present, all the provinces have not been represented in the majority party caucus in the federal Parliament. Nor are the parties in power in the provinces the same party in power in Ottawa. The 1980 national election confirmed emphatically what had been becoming evident for some time: Canada has basically regional parties rather than national ones. And because the parliamentary system usually responds to votes of confidence rather than to set terms of office in changing governments, changes in the 11 legislative bodies in Canada are not made at the same time. Thus the party system has not served well as a mechanism of representation and accommodation between governments in Canada, nor is it likely to do so at any time in the near future.

Partly as a result of the national party system's failure to perform that role, and partly because the subject matter of governmental policymaking in Canada, as elsewhere, has become so extensive and complicated that it does not lend itself to legislative consideration and decisionmaking, "the executive and administrative process of federal-provincial conferences" has become the main device for national integration.[3] (The case might be made a little less strongly. The government of British Columbia, for example, concedes only that "Intergovernmental consultation has allowed for the resolution of conflicts and has introduced a certain degree of flexibility into the system."[4]) In any case, that process bears a much greater burden in Canadian governmental policymaking than it does in the United States. In particular, it is acknowledged widely that intergovernmental consultation has become central to Canadian domestic policymaking and especially to the development of Canadian fiscal and economic policy.

POLICYMAKING BY INTERGOVERNMENTAL CONSULTATION

For the most part, the process works well. As Simeon points out, among its "notable successes" in recent years have been the fiscal arrangements and equalization program described in the next chapter of this study, establishment of the welfare state, and production of "some consensus on basic directions" for Canadian economic policy. He even argues "despite the acrimony over oil pricing and revenues" that has marked recent relations between Ottawa and Alberta in particular, "the present tradeoffs between producers and consumers and between federal and provincial government. . .are as fair to all sides as one could imagine any other process producing." The intergovernmental process breaks down only "when issues are posed in sharp regional terms, or when the institutional interests of governments are directly involved," or when both of these forces combine.[5]

The intergovernmental consultation process is carried on at virtually every level of federal and provincial administration in Canada, from nearly annual meetings of the First Ministers (the Prime Minister and the ten provincial premiers) and regular, often annual, meetings of ministers in the many areas of domestic governmental concern, to frequent meetings of deputy ministers and the senior departmental (and occasionally, agency) officials. *Tables 3* and 4 show something about those meetings' frequency, level, and areas of concern during one recent year.

It probably would not be possible to draw a comprehensive picture of the entire spectrum of intergovernmental consultation. Some of the

Table 3

FREQUENCY OF FEDERAL-PROVINCIAL MEETINGS AND CONFERENCES ACCORDING TO LEVEL OF REPRESENTATION AND AREA OF GOVERNMENT ACTIVITY, 1975

	First Minis-terial	Minis-terial	Deputy Ministerial	Assistant Deputy Ministerial	Offi-cials	Total
General Government	—	3	11	—	4	18
Finances	1	3	7	1	6	18
Agriculture	—	8	9	4	2	23
Transportation	—	15	15	14	13	57
Education	—	2	2	—	5	9
Energy and Resources	3	12	27	6	3	51
Environment	—	19	29	20	25	93
Manpower-Labour	—	23	8	2	11	44
Statistics	—	2	1	4	30	37
Welfare	—	4	5	9	4	22
Health	—	2	15	6	15	38
Industry and Trade	2	7	55	43	50	157
Urban Affairs	—	23	9	14	32	78
Justice and Laws	—	13	3	3	3	22
Consumer Affairs	—	7	4	1	3	15
Communications	—	6	1	—	2	9
Native Affairs	—	11	4	12	11	38
Miscellaneous	—	7	18	15	13	53
Total	6	167	223	154	232	782

SOURCE: Kenneth Kernaghan, ed., "Federal-Provincial Administrative Liaison in Canada," *Public Administration in Canada*, Toronto, Methuen, 1977, pp. 80–81.

Table 4

FREQUENCY OF FEDERAL-PROVINCIAL MEETINGS AND CONFERENCES ACCORDING TO CATEGORY AND LEVEL OF REPRESENTATION, 1975

	Bi-lateral	Re-gional	Multi-lateral	Total
First Ministerial	4	—	2	6
Ministerial	99	10	58	167
Deputy Ministerial	148	12	63	223
Assistant Deputy Ministerial	111	14	29	154
Officials	128	9	95	232
Total	490	45	247	782

SOURCE: Kenneth Kernaghan, ed., "Federal-Provincial Administrative Liaison in Canada," *Public Administration in Canada*, Toronto, Methuen, 1977, pp. 80–81.

consulting groups are old and well established, have interim secretariats of their own, and are highly visible to the media; others are relatively new on the scene, have not developed a set procedure, and often fail to catch the attention of the media (and so of the public). Some meet more often than others. And the process differs by subject matter; what applies in health does not necessarily apply in energy. Nor are the process results necessarily the same for every subject matter area; in some areas, policy directions are necessary; in others, discussion and sharing information suffice.

What does characterize the process as a whole (with the exception of First Ministers' conferences) is the important role bureaucrats play. For a long time the federal bureaucracy dominated intergovernmental consultation. During the past two decades, however, "the

Provincial public services slowly became more competent to deal with their federal counterparts on a basis of both partnership and competition. While the gap has now been closed to an important extent, there is still some unevenness among the Provinces." And, as might be expected in recent years, "with the swing toward greater Provincial autonomy there has been a marked resurgence of independence on the part of Provincial officials. . .[and] ministers. Along with the recovery of financial and administrative authority, they have developed a new and often over-aggressive self-assurance," which has tended to make the consultation process more arduous and protracted.[6]

It could be argued that bureaucrats in the Canadian policymaking system, as in the American system, regard programs as the expected outcome of the intergovernmental consultation process at work. They continually emphasize developing policies which lead to continuation of existing or initiating new programs, often regardless of the economic, organizational, or management bases on which the policies and programs must be built. Thus, the *100th Annual Report* of the Auditor General of Canada concluded that policymakers in 1978 apparently deemed the public purse as "bottomless" and to have offered few incentives "for developing effective financial management and control systems" for the programs they put in motion.[7] However, the EPF arrangements of 1977, discussed in *Chapter 5* below, have resulted in a new structure which clearly is providing large savings by eliminating the most important shared-cost programs and replacing them with a GNP-escalated program.

BUREAUCRACIES AND INTERGOVERNMENTAL CONSULTATION

As in the United States, different Canadian bureaucracies respond to particular constituencies in the Canadian public, constituencies whose interests often conflict as you move across the range of government activities involved. Moreover, as Colin Campbell and George J. Szablowski have demonstrated so well, the bureaucracies are divided themselves between those in line agencies and those in the central agencies, the so-called "superbureaucrats."[8] Whereas earlier those in line agencies frequently were important in the consultation process, the superbureaucracy now clearly dominates all but the highest levels of the intergovernmental process, the first ministers and ministers' meetings. Even for those groups they make a heavy input through the preparation and follow-up agenda. The superbureaucracy at the federal level in its present form was largely the creation of Pierre Trudeau. The agencies encompassing that bureaucracy are the Privy Council Office, the Department of Finance, the Prime Minister's Office, the Treasury Board Secretariat, the Federal-Provincial Relations Office, and more recently, the Ministries of State for Economic Development and Social Development.

In so far as fiscal federalism and intergovernmental relations are concerned, the most important roles are played by the Federal-Provincial Relations Office and the Department of Finance. The FPRO is responsible for the increasingly important meetings of First Ministers of Canada and, together with the Department of Justice, for matters relating to the Constitution. The Department of Finance is responsible for the very important fiscal arrangements between the federal government and the provinces. This is handled by the Federal-Provincial Relations and Social Policy Branch of that department. The department also is concerned with fiscal harmonization and a wide range of economic matters. However, federal-provincial relations cover such a broad range of government activities every federal department is involved in this area.

FPRO was reduced in importance during Prime Minister Clark's short tenure in office, but evidently has been brought back by Prime Minister Trudeau in the new government. Whether it will be carried on as it was before or somewhat recast remains to be seen. All we know at this writing is Mr. Trudeau has assigned one of the secretaries to the cabinet special responsibility for federal-provincial relations and has indicated he will take particular personal interest in the area himself, thus perhaps supporting Michael Pitfield's conclusion that since

> [s]o many of the federal government's

decisions are by the nature of federalism important to the provinces. . .it is natural that the Federal-Provincial Relations Office should be in partnership with the Privy Council Office under the Prime Minister's immediate direction.[9]

For their part, most provinces have some of the same superbureaucratic institutions, writ small, as they have been adapted to provincial use. The FPRO commonly is duplicated at the provincial level either by a free-standing office or ministry of intergovernmental affairs or by assigning someone at a high level in provincial government the responsibility for intergovernmental relations. A premier frequently assumes some aspects of that responsibility himself. In addition, the Council of Maritime Premiers and the Western Premiers Conference and their staffs and working groups serve as multi-provincial policy-recommending bodies. Considering such agencies as FPRO and the provincial intergovernmental relations agencies, Simeon wonders if the professional bureaucrats staffing them have not come to constitute "an internal diplomatic corps" more concerned with the *process* than with the *substance* of intergovernmental relations and so perhaps have changed the nature of the process itself.[10]

One other body deserves comment (though the Economic Council of Canada escapes Campbell and Szablowski's analysis as a superbureaucratic institution). The Economic Council's involvement in the consultative process is quite different from that of the agencies just described. When the Council was created in 1963, its form was "influenced by the Canadian federal system. While there were thoughts of creating more expertise within the Treasury Board, the Department of Finance, and the Privy Council Office," in the end the decision was made to locate the Council outside the framework of any of them, so it might serve as "a somewhat neutral body to provide economic information and advice to both the federal government and the provinces."[11] The act creating the council specifies one of its duties shall be "to seek full and regular consultation with appropriate agencies of the governments of the several provinces" as it seeks to foster the balanced economic growth of all sections of the country. Its reports and recommendations consistently demonstrate it recognizes the multigovernmental dimension of Canadian policymaking to that end. The provinces are not represented formally in the council's membership, however, and thus there is no assurance the kind of economic research will be conducted which the provinces might view as essential to understanding the impact of national economic policies on their regional economies.[12] In fact, the Economic Council has not played an important role in fiscal federalism. It has completed some studies in this area, but these studies apparently have little influence on major fiscal negotiations. Up to the present, the council has written relatively little about the fiscal arrangements in effect since 1977.

As *Table 3* suggests, many line department officials of both federal and provincial governments continue to be involved in their own set of intergovernmental consultations. Of particular importance lately have been the consultations between ministers and officers responsible for industry and trade, environment, and energy and resources. One federal line department in particular is intimately involved in consulting and negotiating with the provinces—the Department of Regional Economic Expansion, established in 1969. It has comprehensive responsibility for planning and coordinating action between the two levels of government to reduce regional disparities. Its target is those sections of the country which historically have suffered from high unemployment rates, underemployment, and low productivity employment—chiefly the Atlantic Provinces and Quebec. However, its activities extend to designated areas within all ten provinces.

The impact of government agencies and operations outside these traditional departments and agencies on policymaking and the intergovernmental process bears mention—specifically, the crown corporations and nonbudgetary funds of which Canada makes such great use. Through crown corporations, governments in Canada have a much more "substantial involvement in the public sector" than in the United States. A crown corporation is an institution in which a government owns or shares

in the ownership with another government or with a private sector entity. It is cast in a corporate form but removed by design some distance from the direct political control of cabinets and parliaments. A wide range of structures is used, with some being independent of government control and others not. Although almost always under a cabinet minister, crown corporations operate much like private corporations. Crown corporations often can act with relative independence; they usually are not obligated legally to bring their operations into line with federal or provincial economic or fiscal objectives and policies; and their financial expenditures and commitments often are not subject to government approval or continuing scrutiny. This situation may be expected to change. Thus, the federal government introduced legislation late in 1979, the Crown Corporations Act, to provide for control, direction and accountability for crown corporations. There are about 400 crown corporations at the federal and provincial levels of government in Canada.[13] The Canadian Development Corporation and Petro-Canada are examples of crown corporations at the federal level; even Prince Edward Island has its industrial Enterprises Incorporated, which operates two industrial parks, helps firms through financing and labor-force training, and provides management and technical advisory services. Some crown corporations are joint enterprises of the federal government and a province. One example of such a corporation is the Waterfront Development Corporation, Ltd., which is funded jointly by Ottawa and the Province of Nova Scotia to renovate the historic harbor section of Halifax.

The Canada Pension Plan and Quebec's Caisse de Depot et de Placement du Quebec (which manages the funds collected under Quebec's own pension and car insurance plans), as well as the Alberta and Saskatchewan Heritage Funds, mentioned earlier, are examples of the most important government fund agencies.

While the management of crown corporations and government funds is outside the bureaucracies involved in ordinary intergovernmental consultations, it wields an economic clout most important in intergovernmental relations. This is true of both federal and provincial bodies.

INTEREST GROUPS

Governments and bureaucrats in Canada do not make policy in a vacuum, any more than they do in the United States. In fact interest group activity has increased tremendously in recent years. This has resulted from a massive increase in the scope and scale of government in Canadian life, the vastly larger number of officials available to pressure and persuasion, and the awakening of Canada's citizenry, as in the United States, to an activist role in politics, which has brought them in contact with many more government officials as they plead their cases.

It is obviously necessary for the several governments in Canada to respond to the two quite different mind-sets and demands of the English- and French-speaking societies as they make policy. But they respond to other pressures as well. As they do so, they generally have "eschewed programmatic, doctrinaire politics in favor of empiricism, incrementalism, and the evolution of policies which respond to the demands of interested parties . . . . Canada generally accepts the pressures of a pluralist society in which major policy decisions emerge not from the coherent and consistent program of . . . ideologically-based political part[ies] but from the bargaining of numerous groups."[14]

In Canada bargaining is focused more on the executive branch—the cabinet, ministries, and the civil service—than on the legislative branch, as in the United States. Again, unlike the United States, Canada's smaller population and correspondingly much smaller number of officials (political and bureaucratic elites), as well as the smaller number of governments, makes contact between them and interest group representatives easier and more natural.

But like the United States, the fact Canada is a federal state and thus contains 11 centers of policymaking means interest groups do not push their causes only in Ottawa. And like the United States too, provincial governments in Canada, "while at one level aggregating special and local interests into provincial policies, at another level act as spokesmen for particular interests of their own" vis-a-vis the federal government.[15] Thus both private sector groups and provincial governments themselves exert

pressure on the federal government. The former maintain the expected bevy of lobbyists in Ottawa.[16]

For its part, the federal government exerts pressure on provincial policymaking, chiefly through its own bureaucracy but also through the institution of federal-provincial conferences. Conferences provide occasions for federal participants to comment on those matters under provincial jurisdiction which are in the national interest. One obvious area of federal concern is the broad field of education. In this and other areas, however, the "protective instincts" of the provinces often come to the fore, and the provinces tend to resist proffered federal comment or advice.[17]

As for private pressure groups, P. Aucoin noted in 1975 that increasingly they are finding:

1) they can no longer rely as exclusively as they once did on their contacts with departmental bureaucrats but also must penetrate central advisory mechanisms, such as the PMO, PCO and Treasury Board;
2) they must be prepared to present more formal presentations, based on the views of their own experts, rather than simply communicate their demands in friendly chats with bureaucrats or Cabinet members;
3) they must formulate their demands in a way that enables the political and bureaucratic sectors to compare them to demands from competing groups; and
4) they must be more willing to engage in public discussion, at least in the forum of legislative committees.[18]

Meisel points out other changes: as governments have added a number of boards and commissions with responsibilities in the public sector, they have tended "to appoint spokesmen for particular interests" to board membership. This has resulted "in the line between the private and the public sector becoming blurred and, in a sense, in each becoming contaminated." Too, patronage appointments to government boards and commissions increase the interdependence between government and pressure groups.[19] Finally, former civil servants, former Members of Parliament and legislatures, and former cabinet members have followed American precedents and have offered their expertise to interest groups as lobbyists or consultants.[20]

Analysis of private interest groups' impact on Canadian government policymaking in the intergovernmental context is in the infant stage. Speaking about the impact of those groups on the policy process in general, Meisel noted as he sees it "not all relevant interests are represented in the . . . process and some [the rich] are much better placed to exert influence than others [the poor]."[21] And he points out that since the spokesmen for interest groups often "do not accurately represent the wishes of their members . . . the brokerage process does not necessarily produce solutions which are in the best interests of the community as a whole." Finally, he notes, increasing public awareness of interest group influence "undermines trust in the integrity and effectiveness of government. . . ."[22] If the policymaking process as a whole is so permeated by these factors, it is not unreasonable to assume they carry over into policymaking through the intergovernmental consultation process.

With regard to public sector interest groups, unlike the United States which is dominated by a few groups of equal weight, Canada is not. Unions of municipalities do exert pressure on provincial legislatures, as the Council of Maritime Premiers and the Western Premiers Conference do on the federal Parliament. But for the most part, the public sector is not highly organized or cohesive. On the other hand, the provincial and federal bureaucracies are linked closely. It may be as they interact in the intergovernmental process, each bureaucracy assumes the role of public sector spokesman on particular issues and on particular occasions.

In the end, the intergovernmental process culminates in a federal-provincial conference. The consulting teams of superbureaucrats and line agency officials go to work armed with numerous weapons—parliamentary and legislative mandates, cabinet directives, Economic Council studies, the fiscal force of crown corporations and government fund managers—and the knowledge of group desires and inter-

ests, and supported by their own "homework." The process is far from monolithic, as *Tables 3 and 4* make clear. Consultation occurs constantly at several levels and on many different subjects and issues, often simultaneously. As Gérard Veilleux points out, "the intergovernmental machinery can be put into operation on very short notice and can deal with matters of enormous complexity . . . ."[23]

THE INTERGOVERNMENTAL PROCESS EVALUATED

Even so, intergovernmental consultation is not an easy process to use. It has been criticized over the years on a number of grounds. There are apt to be a great many left hands that do not always know what the right hands are doing. Simeon sees the process as essentially undemocratic, removed as far from the public as it is;[24] as costly; and as tending to frustrate functional consultation between governments and business and labor in Canada, which is "equally required in contemporary advanced states . . . ."[25] Gordon Robertson, speaking from his intimate personal experience as a federal bureaucrat involved in the process, is bothered by a recent shift in the nature and perception of many intergovernmental meetings. He felt these meetings once offered opportunities for coordination and consultation in the classic administrative sense, but in recent years they have become occasions "for the articulation of distinct provincial interests and for provincial intrusion into wholly federal areas of concern."[26] Michael Kirby, formerly president of the Institute for Research on Public Policy and in 1980 appointed deputy secretary to the cabinet for federal-provincial relations, noted in a lecture delivered at Carlton University, April 1980, "Provinces, like individual citizens, are now tending to take an individualistic rather than a collective view of the country, and the result is a tension in federal-provincial relations on a scale that is unprecedented in Canadian history."[27] Moreover, there has been a noticeable tendency recently for provincial team members to "gang up" on those from Ottawa at federal-provincial conferences, using the occasions to make demands rather than for genuine consultation. Gérard Veilleux questions whether the federal-provincial process has become "inherently adversarial and hence counter-productive in nature."[28] The government of British Columbia, in its 1978 series of *Constitutional Proposals*, observed changes in the consultative mechanisms too often have been made "piecemeal" and on a short-term basis, "with little regard for long-term objectives and priorities." It expressed the opinion that the intergovernmental process consists of a "rather nebulous clutter of committees . . . often without consistent objectives or formal organization. There has been little attention paid to coordinating the activities of the vast network of . . . meetings and conferences that take place each year" across the range of policy areas. "Very little information flows between these various bodies and no mechanism [exists] for resolving overlap and inconsistency."[29]

Other criticisms of the process include:

- the inevitability of bargaining, which is inherent in the negotiation process;
- the length of time involved in the process, which means there is usually a major time lag between the identification of a problem and the beginning of action to alleviate or solve it;
- the impediment to final action presented by the necessity of bureaucrats having to refer a "decision" back to provincial and federal governments for acceptance and implementation;
- the possibility "the feds are [not] telling everyone the same story" in the many consultations occurring at the same time;[30]
- the tendency of governments to use the process "to clear their consciences by putting off problem solving to a later date . . .;"[31] and
- the failure of the process to follow through, in any organized or general way, by reviewing and evaluating these programs once they have been implemented.

Even more basic worries have been voiced by two serious students of the process at work. Richard Simeon sees it challenged by the growth of the parallel forces "of provincialism

and Quebec nationalism" and by erosion of the perceived "legitimacy and effectiveness of the central government on the one hand and by the need for Canadian governments to devise effective strategies for development in an often hostile world setting" on the other. The latter suggests to him the need for greater coordination and planning among governments; the former, he says, "makes that much harder to achieve."[32] Gérard Veilleux is concerned whether the federal-provincial negotiation process can continue to function as successfully as it has in the past in the face of a number of "deep-rooted problems" which he believes have developed recently. Those problems include:

1) "the growing complexity of the economy and of the problems to be solved;
2) the increasing involvement of governments in each others' operations (for example, the interdependency of governments on each others' economic forecasts) and the consequent blurring of responsibility of different governments for taking action in specific areas;
3) the increasing public cynicism concerning the capacity of governments to solve problems;
4) the increasing fiscal pressure on governments (with the conspicuous exception of those that are able to derive large revenues from natural resources);
5) the substantially increased capacity of the provinces to develop solutions to complex fiscal and economic problems without having to rely on federal leadership;
6) the increasing sophistication and assertiveness of provinces in matters of economic development which appear to be leading them into conflicts with each other as well as [with] the federal government; and
7) some evidence of growing isolationism in some parts of the country."[33]

Finally, most students of the intergovernmental process would agree the focus of the process has been changing gradually, making one wonder if it will serve as well in the future as it has in the past. A decade or so ago, discussions focussed "mainly on matters of taxation, tax sharing, the provision of major new public services and the use of shared-cost programs as a means to this end." More recently, other matters have come to the fore. In addition to providing opportunity for regular discussions of the general economic outlook, discussions are increasingly directed to "economic policy issues relating to the structure and longer-term development of the economy . . . energy, trade, manufacturing and industrial development . . . ." In other words, "whereas in the 1960s much of [the consulting teams'] attention was concerned with the means of financing new programs and services, much of it is now concerned with means of implementing expenditure restraint."[34]

In any case, what eventually must be answered in Canada, Richard Simeon has concluded, are three fundamental questions:

- "first, are the regional divisions so deep, the competing ambitions and development priorities of federal and provincial governments so different, and the policy-instruments for policymaking so widely shared among the two levels of government, that [Canada] is unable to meet the challenge to develop coherent national economic and social policies?
- second, are the ethnic and regional tensions so great, the forces of province and Quebec nation-building so strong, the integrative factors so weak [,] that [Canada] will be unable to resolve the constitutional issue, short of fragmentation?
- third, is the present, or potential, machinery of intergovernmental relations able to meet these two challenges?"[35]

Even with all these caveats, there is nearly unanimous opinion in Canada among practitioners and scholars of government that intergovernmental consultation remains a necessary

and vital part of the Canadian process. The problem is not to do away with it but to improve it. The concluding section of this report which discusses proposals for constitutional revision in Canada, suggests some ways to do that.

FOOTNOTES

[1] R.M. Burns, *Intergovernmental Fiscal Transfers: Canadian and Australian Experiences*, Research Monograph No. 22, Canberra, Centre for Research on Federal Financial Relations, The Australian National University, 1977, p. 3.

[2] Richard Simeon, *Intergovernmental Relations and the Challenges to Canadian Federalism*, Discussion Paper No. 7, Institute of Intergovernmental Relations, Queen's University, Kingston, Ontario, The Institute, 1979, p. 1. The paper is reproduced under the same title in *Canadian Public Administration* 23: 14–32, Spring 1980.

[3] *Ibid.*, p. 2.

[4] Province of British Columbia. *British Columbia's Constitutional Proposals*, Paper No. 5, September 1978, p. 11.

[5] Simeon, *Intergovernmental Relations* . . ., p. 4; regarding the successes of the intergovernmental consultation process, see also Gerard Veilleux, "Intergovernmental Canada: Government by Conference? A Fiscal and Economic Perspective," *Canadian Public Administration*, 23:34, Spring 1980.

[6] R.M. Burns, "Financial Centralization and Administrative Capacity in Canada," in *Political and Administrative Federalism*, Research Monograph No. 14, Canberra, Centre for Research on Federal Financial Relations, The Australian National University, 1976, p. 10.

[7] J.C. Strick, reviewing the *100th Annual Report of the Auditor General of Canada to the House of Commons, Fiscal Year Ended March 31, 1978*, Ottawa, Ministry of Supply and Services Canada, 1978, in *Canadian Public Administration*, 22:316, Summer 1979.

[8] Colin Campbell and George J. Szablowski, *The Superbureaucrats: Structure and Behavior in Central Agencies*, Toronto, Macmillan, 1979.

[9] Michael Pitfield, "The Shape of Government in the 1980s: Techniques and Instruments for Policy Formulation at the Federal Level," *Canadian Public Administration*, 19:15, Spring 1976.

[10] Simeon, *Intergovernmental Relations* . . ., p. 11.

[11] R.W. Phidd, "The Economic Council of Canada: Its Establishment, Structure, and Role in the Canadian Policymaking System," *Canadian Public Administration*, 18: 437, Fall 1975.

[12] This complaint is voiced in Province of British Columbia, "Regional Economic Accommodation." *Towards an Economic Strategy for Canada*, Background Papers, February, 1980, p. 28.

[13] *Comparative Facts on Canada, Mexico, and the United States*, Factbook No. 2, The Dean Rusk Center, University of Georgia Law School, Athens, GA, The Center, 1979, p. 94.

[14] John Meisel, *Exorcising the Pluralist Heaven: Interest Groups in Canadian Society*, a paper prepared for the Seminar on Canadian-United States Relations, first draft, Harvard University, October 30, 1979, pp. 4–5 and 9.

[15] *Ibid.*, p. 6.

[16] The Clark government began to set up a central registry of lobbyists in 1979. By November, the registry listed more than 1,500 groups. *The Globe and Mail*, November 21, 1979, p. B 17.

[17] Gordon Robertson, "The Role of Interministerial Conferences in the Decision-Making Process," in Richard Simeon, ed., *Confrontation and Collaboration—Intergovernmental Relations in Canada Today*, Toronto, The Institute of Public Administration in Canada, 1979, p. 84.

[18] P. Aucoin, "Pressure Groups and Recent Changes in the Policy-Making Process," quoted in Meisel, *Exorcising the Pluralist Heaven* . . ., p. 11.

[19] Meisel, pp. 11–12.

[20] Thomas Hockin raises the point of whether the growing intervention of Canadian governments in private industry does not "raise profound reservations about the autonomy and independence of interest groups in general . . . ." He wonders if the involvement of interest group representatives directly in the policymaking process does not cause them to lose their independence and so to make "pressure group politics . . . less real than they seem," Hockin, *Government in Canada*, p. 84.

[21] Meisel goes on to note "The federal government has tried to reduce disparities between opulent interests and relatively indigent ones by making grants to certain organizations and groups . . . [Recent] financial constraints, however, have . . . led the government to slash these expenditures." In *Exorcising the Pluralist Heaven* . . ., pp. 29–30.

[22] *Ibid.*, p. 14.

[23] Veilleux, p. 38.

[24] As Tim Creery has noted, "programs requiring federal–provincial agreement become very complex and difficult for the ordinary citizen to understand. They require extensive negotiation through a form of diplomacy among the many governments involved, and this gives the negotiating teams of civil service experts much power in shaping them. And these negotiations, being at the executive level, are secret." In "Up the Road," *Report*, December 1979/January 1980, p. 46.

[25] Simeon, *Intergovernmental Relations* . . ., pp. 9–11.

[26] Gordon Robertson, quoted in Richard Simeon, ed., *Confrontation and Collaboration* . . ., pp. 82–83.

[27] Quoted in *The Financial Post*, May 3, 1980, p. 7.

[28] Veilleux, p. 40.

[29] Province of British Columbia, *British Columbia's Constitutional Proposals*, Paper No. 5, "Improved Instruments for Federal-Provincial Relations," September 1978, pp. 7–8 and 10–11.

[30] The concern of an adviser to Premier Bill Davis of Ontario, quoted in *The Financial Post*, November 17, 1979, p. S 19.

[31] The opinion of the Deputy Minister of Intergovernmental Affairs of Quebec, quoted in *Quebec Update*, Vol. II, No. 49, Quebec Government Office in Atlanta, GA, December 10, 1979, p. 2.

[32] Simeon, *Intergovernmental Relations* . . ., p. 5.

[33] Veilleux, p. 40.

[34] *Ibid.*, pp. 36–38.

[35] Simeon, *Intergovernmental Relations* . . ., p. 2; see also Veilleux, pp. 42–53.

Chapter 5

Fiscal Federalism In Canada

The detailed information about the intergovernmental consultation process outlined in *Chapter 4* of this report was included to identify it as the process through which most basic decisions about Canadian fiscal federalism are made, at least decisions about transfers and payments of federal funds to the other governments of Canada. The importance of federal payments to provinces and municipal governments will be understood more fully when it is realized these payments were estimated to reach $11.2 billion in fiscal 1979–80 and to constitute about 22% of estimated total federal budgetary expenditures in that year.

Federal funds have been transferred to the other governments of Canada since the beginning of confederation. No attempt will be made here to give an historical account of the changing pattern of federal transfers and payments over time. That has been done amply elsewhere.[1] It is necessary to note only that issues of fiscal federalism came to the center of the intergovernmental stage after World War II. In order to meet the post-war needs created by rapid population growth, increased urbanization, and an increased emphasis on education throughout the country, the provinces demanded and won from Ottawa impressive concessions in terms of the effective transfer of revenues from the federal government through a series of tax abatements. That transfer was forged under what might be called "confronta-

tion federalism," in which one issue dominated, namely, which government would bear the political cost of levying the personal income tax. As federal policymakers yielded more and more income tax ground to the provinces, they began to realize they were giving the provinces tax room at zero political risk to provincial leaders on the one hand, while on the other hand they soon would encounter difficulties in meeting necessary federal expenditures. Finally, in 1966, the federal government drew the line, telling the provinces in effect to look elsewhere than to the further and continuous abatement of federal income taxes to solve their fiscal problems. When Prime Minister Trudeau entered office in 1968, the search for other possibilities was continued, until finally in 1977 the existing fiscal arrangments were established.

The issues involved in fiscal federalism obviously produce tensions among Canadian governments, tensions which, many believe, will not be reduced without a number of constitutional adjustments (see *Chapter 7* of this study). In any case, some of the existing arrangements for federal transfers and payments were made only after a "series of long and sometimes arduous negotiations" which involved an unprecedented unanimous joint submission by the provinces to the Finance Ministers' meeting in December 1976 and which culminated in an agreement between the federal government and the provinces, subsequently embodied in the Federal-Provincial Fiscal Arrangments and Established Programs Financing, Act, 1977.[2] Those arrangements were set for a five-year period; thus another round of negotiations already has begun with a view to legislation by April 1, 1982.

Besides the arrangements under that authority, there are numerous other arrangements for transfering funds from Ottawa to the provinces which also are the product of consultation and negotiation. Under most of these, the costs of services are shared half and half by the two levels of government. The 1977 arrangements package is discussed first and then the other arrangements.

1977 FISCAL ARRANGEMENTS ACT

The 1977 agreement and act "is undoubtedly one of the most important milestones in the long history of intergovernmental financial arrangements in [Canada] . . . [It] continues a basic structure of harmonized definitions and tax collecting arrangements that was begun over 36 years ago[;]. . . it . . . preserves the elaborate system of equalization payments directed towards the less favoured provinces; [it incorporates] . . . measures to assure the relative stability of provincial government revenues; and . . . it provides a major and much-needed disentangling of the responsibilities and financing for three major social programs in which there has been a formal sharing of costs between the federal and provincial governments, namely Hospital Insurance, Medicare and Post-Secondary Education."

As a result of these arrangements, the Economic Council of Canada predicted "the mix of government surpluses or deficits" would be altered, since under them the federal government transferred more of its financial resources to the provinces; having gained "the increased flexibility they sought," the provinces would be able to adjust their delivery systems "to provide services at lower cost and . . . thus have greater incentive to control spending" as well as to "shift expenditures to programs that command higher priority." For its part, the federal government would be able to maintain "the growth of its program contributions in line with the expansion of GNP."

> The overall results of the new arrangements will bring a major change in the structure of the public accounts at both levels of government, reducing both federal revenues and expenditures and increasing provincial revenues should the provinces choose to enter the tax fields that the central government has abandoned. This, in turn, will increase the need for even better coordination of federal-provincial fiscal policies through the already existent federal-provincial meetings of finance ministers. This coordination should not be limited to fiscal policies but should also embrace other important policy areas . . . debt management [for example.][3]

Not enough time has elapsed since the ar-

rangements were implemented to collect sufficient data to judge whether all the Economic Council's predictions have been borne out, though there are indications some of them have. Thus what follows is more descriptive than evaluative.

Cooperation in the Tax System

Since 1941 Canada has had important arrangements governing the Federal-provincial joint occupancy of the personal and corporation income tax fields. These revenues accounted for about 38% of total government revenues in Canada in fiscal 1979–80, with slightly more than 60% of this accruing to the federal government and almost 40% to the provinces. A distinctive feature of the Canadian income tax system is the tax collection agreements between the federal governments and nine provinces. Continuing earlier practices, established in 1962, the 1977 act authorizes the federal government to offer the use of its income tax collection facilities to provincial governments, so they may be spared the expense of establishing their own administrative machinery for collecting such taxes. All the provinces save Quebec currently participate for provincial personal income taxes and all except Quebec and Ontario participate for provincial corporate income taxes. Alberta announced in April 1980 that beginning with the 1981 tax year it will implement its own corporate tax system. The act provides for bringing the two territories into the tax collection agreement; the Northwest Territory entered into the agreement in 1978.

Under this arrangement a tax collection agreement is entered into between the federal government and each province, by the terms of which the federal government collects the income taxes imposed by the province upon its residents at the same time and in the same manner as it collects its own income taxes. The general conditions of the agreements between Ottawa and the provinces provide that provincial tax systems conform to the following principles:

1. The "provincial individual income tax shall be expressed as a constant percentage of the federal tax payable by the individual for the year."
2. The "provincial corporation income tax shall be expressed as a percentage of the taxable income of a corporation earned in the province in the year."
3. The "province will, in respect of each year, impose only one rate of individual income tax . . . ."
4. The "province will accept as final and binding all assessment, decisions, and other steps taken by the [federal] Department of National Revenue under the Federal Income Tax Act."[4]

In return for accepting these conditions, the federal government incurs the entire collection cost and remits the amount of tax assessed under each provincial act to that province in full. (The amount of payments on account are determined by the federal government and paid to the provinces in installments through each fiscal year. Final adjustment payments are made 15 months after each fiscal year and are based on actual tax assessed.) Either party may modify or terminate a tax collection agreement upon sufficient notice.

Under this arrangement each government levies its taxes on a uniformly defined tax base, and each government is free to establish the rate to be applied to that base. (For current tax rates, see *Table 16, Chapter 6*.) If they wish, the provinces may impose special surcharges or grant tax credits or rebates on taxes. (If they do so the federal government charges a small fee for administering them.) Such possibilities give the provinces additional flexibility and permit diversity in the personal income tax across the country. But they do not require additional filings by individuals. Since the bases used by the federal government, with minor exceptions, have been used by Quebec and Ontario, as well as by the provinces under a tax collection agreement, Canada has a strikingly uniform income tax system. In addition, there has been virtually no double taxation because there have been uniform residence requirements for persons, and uniform rules for allocating the profits of corporations operating in more than one province. The various provincial tax credits and surcharges, however, have eliminated the previously uniform progressivity of the combined federal and provincial personal income tax system.

In earlier tax agreements, the federal government had provided some assurance of a revenue "floor" to the provinces. "Not surprisingly, the future of this Revenue Guarantee was a major issue in the . . . round of negotiations [leading up to] the [1977] federal-provincial arrangements." In the end, the federal government surrendered one percentage point of its personal income tax to the provinces and gave them the equivalent of another one percent in cash on a one-time basis. The federal government presented this transfer as final. However, the federal government did agree to protect each province against a reduction in its personal income tax revenue due to the province as a result of a change in the federal personal income tax structure. The federal government estimates the revenue impact of any federal personal income tax change for each tax year. Where change reduces the federal basic tax more than 1%, each province is paid its share of the amount exceeding 1%. This guarantee applies only if the federal change(s) is announced after the beginning of a tax year to take effect in that same year.

"This guarantee limits the exposure of provincial governments to unpredictable changes in their revenues arising from maintaining a uniform tax system. But it also limits the federal government's commitment to the first tax year in which a change is in effect. Initially this guarantee was applicable only to the nine provinces for which the federal government collects personal income tax. After a request from Quebec, however, the guarantee was made available to that province also for instances when it changes its personal income tax in parallel with moves at the federal level."

Equalization Payments

Since 1957 the federal government has made what have been termed "equalization payments" to provinces with tax yields below some specified standard. Since 1967 the purpose of the program has been to provide fiscal support to those provincial governments unable to raise sufficient revenues from their own economies through a broad range of taxes to maintain an adequate level of public services without having to resort to relatively high rates of taxation. Thus while equalization payments are calculated in light of the provinces' capacity to derive revenue from taxation, its purpose relates equally to provincial expenditures—that purpose being to enable each province to provide its residents with a reasonable level of public services. Since 1967, the system has been based on the sophisticated "representative tax system" pioneered by the U.S. Advisory Commission on Intergovernmental Relations in the 1960s. That system takes all provincial revenue sources into account. A province whose per capita revenue receipts from such a representative system are less than the national average per capita yield for any year, receives a special federal payment equal to the per capita shortfall multiplied by its population in the form of an unconditional, no-strings-attached grant. An "equalization formula" is applied to determine the difference for each revenue source between what each province would receive if it had an average tax base and applied the national average tax rate to it and what it would receive if it applied that rate to its actual tax base. These differences are then added to provide the figure for the amount of equalization, if any, to which the province is entitled. The provinces contribute the data for calculating equalization payments, with most of it being certified by Statistics Canada.

The 1977 act identifies 29 revenue sources in its construct of a representative provincial revenue structure. *Table 5* lists those sources as they were figured for each province for the 1979–80 fiscal year; provincial entitlements determined by applying the formula are shown by province in *Table 6*. Equalization payments are made regularly to seven of the ten provinces, which between them account for approximately 45% of the nation's population. The other three provinces receive nothing from this $3 billion program. The payments are made free of any conditions. As a consequence of these transfers—and the receiving provinces' willingness to impose relatively high taxes—there appears to have been remarkably small differences between provinces in terms of their public services. *Table 7* lists the provinces receiving equalization payments in fiscal 1977–78 and the payment amounts.

"Throughout the history of equalization in Canada, it has been accepted that the payments should go only to needy provinces. Those with

Table 5

PROVINCIAL DISTRIBUTION OF POPULATION AND TAX BASES, FEDERAL-PROVINCIAL FISCAL ARRANGEMENTS, 1977–82, FOR THE YEAR 1979–80 (in percent)

Population and Tax Bases	Nfld	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	Receiving Provinces
Population (June 1)	2.43%	0.52%	3.59%	2.97%	26.68%	36.01%	4.37%	4.05%	8.51%	10.87%	44.61%
Personal Income Taxes	1.30	0.28	2.48	1.85	24.55	39.97	3.50	3.26	10.03	12.79	37.22
Business Income Revenues	1.03	0.20	1.75	1.34	21.96	38.32	3.65	3.34	15.53	12.88	33.26
General Sales Tax	1.73	0.35	2.79	2.42	23.60	36.70	3.73	3.88	11.98	12.83	38.50
Tobacco Taxes	1.79	0.45	2.94	2.87	29.47	33.97	3.80	3.21	11.15	10.36	44.52
Gasoline Taxes	1.73	0.52	3.38	3.07	25.14	36.45	4.13	4.28	10.25	11.05	42.25
Diesel Fuel Taxes	1.85	0.15	2.93	2.79	24.16	35.52	3.77	4.74	13.22	10.85	40.40
Noncommercial Vehicle Licenses	1.35	0.48	2.93	2.50	25.39	36.80	4.57	4.06	9.87	12.05	41.28
Commercial Vehicle Licenses	1.79	0.36	2.77	2.77	18.23	30.57	5.25	6.72	17.76	13.77	37.89
Revenues from Sale of Spirits	2.01	0.60	3.69	2.06	17.86	38.71	5.06	4.72	11.26	14.04	36.00
Revenues from Sale of Wine	0.76	0.28	2.34	1.34	28.78	34.89	3.60	2.43	8.85	16.74	39.52
Revenues from Sale of Beer	2.38	0.42	3.08	2.24	29.75	36.07	4.13	3.11	7.66	11.15	45.12
Hospital Medical Insurance Premiums	2.07	0.46	3.50	2.82	25.00	38.75	4.06	3.50	8.37	11.48	41.40
Succession Duties, Gift Taxes	0.79	0.19	1.85	1.19	25.38	42.78	2.76	3.19	10.37	11.48	35.37
Race Track Taxes	0.09	0.39	1.39	0.88	22.50	49.28	3.52	1.01	10.80	10.14	29.78
Forestry Revenues	2.68	—	0.53	3.32	18.19	14.77	0.91	1.40	2.12	56.06	27.04
Crown Oil Revenues	—	—	—	—	—	—	0.20	11.49	85.27	3.04	11.69
Freehold Oil Revenues	—	—	—	—	—	0.75	3.33	13.48	82.15	0.30	16.80
Crown Gas Revenues	—	—	—	—	—	0.23	—	1.82	83.84	14.11	1.82
Freehold Gas Revenues	—	—	—	—	—	0.81	—	0.52	98.36	0.30	0.52
Sale of Crown Leases	—	—	—	—	—	0.02	—	4.43	75.66	19.89	4.43
Other Oil and Gas Revenues	—	—	—	—	—	0.12	0.10	6.82	84.07	8.88	6.92
Mineral Revenues	9.88	—	2.46	1.81	20.96	31.52	2.56	10.07	3.57	17.18	47.73
Water Power Rentals	18.86	—	0.33	0.88	36.61	16.79	7.27	1.09	0.78	17.39	65.04
Insurance Premium Taxes	1.27	0.35	2.62	2.44	29.14	36.67	3.62	3.35	9.69	10.85	42.79
Payroll Taxes	1.42	0.29	2.76	2.08	24.77	40.96	3.92	3.00	8.81	11.98	38.25
Property School Taxes	1.55	0.35	2.65	2.14	24.16	38.88	4.29	4.07	9.98	11.93	39.22
Lottery Revenues	1.50	0.36	2.93	2.23	24.87	39.67	4.16	3.77	8.61	11.91	39.82
Miscellaneous Provincial Taxes	1.36	0.29	2.48	1.98	23.49	39.04	4.07	4.01	11.36	11.91	37.68
Shared Federal Revenues	0.74	0.52	1.45	1.11	33.08	36.12	3.89	2.33	9.94	10.82	43.12

SOURCE: Third estimate for 1979–80 of payments under the *Federal-Provincial Fiscal Arrangements and Established Programs Financing Act, 1977*, Canada, Department of Finance.

Table 6

EQUALIZATION ENTITLEMENTS BY REVENUE SOURCE AND PROVINCE, ARRANGEMENTS, 1977–82, FOR THE YEAR 1979–80

(in thousands of Canadian dollars)

Revenue Source	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.
Personal Income Taxes	$121,470	$25,881	$119,477	120,176	$229,377	$-425,853
Business Income Revenues	39,310	9,065	51,621	45,609	132,546	-64,902
General Sales Tax	42,075	10,241	47,448	32,577	183,737	-41,116
Tobacco Taxes	4,614	469	4,604	722	-19,935	14,595
Gasoline Taxes	10,273	34	3,034	-1,423	22,756	-6,522
Diesel Fuel Taxes	1,735	1,097	1,968	532	7,565	1,458
Noncommercial Vehicle Licenses	6,242	253	3,791	2,700	7,512	-4,573
Commercial Vehicle Licenses	3,318	801	4,201	1,021	43,477	27,957
Revenues from Sale of Spirits	3,595	-703	-910	7,799	75,310	-23,046
Revenues from Sale of Wine	3,997	583	2,985	3,886	-5,012	2,671
Revenues from Sale of Beer	185	374	1,904	2,712	-11,490	-222
Hospital Medical Insurance Premiums	4,639	799	1,162	1,980	21,534	-35,186
Succession Duties, Gift Taxes	1,487	296	1,577	1,612	1,184	-6,155
Race Track Taxes	2,421	131	2,269	2,160	4,319	-13,710
Forestry Revenues	-1,264	2,665	15,650	-1,800	43,487	108,804
Crown Oil Revenues	29,055	6,216	42,869	35,474	318,837	430,249
Freehold Oil Revenues	1,482	317	2,186	1,809	16,257	21,483
Crown Gas Revenues	22,080	4,724	32,578	26,934	242,297	324,854
Freehold Gas Revenues	596	127	879	728	6,537	8,622
Sales of Crown Leases	6,724	1,439	9,921	8,212	73,790	99,524
Other Oil and Gas Revenues	1,107	237	1,633	1,351	12,148	16,338
Mineral Revenues	-15,026	1,049	2,282	2,342	11,544	9,054
Water Power Rentals	-9,285	294	1,841	1,182	-5,611	10,860
Insurance Premium Taxes	2,392	359	1,995	1,105	-5,089	-1,370
Payroll Taxes	5,190	1,162	4,255	4,561	9,869	-25,525
Property School Taxes	34,057	6,665	36,284	32,212	97,885	-111,411
Lottery Revenues	1,991	336	1,399	1,589	3,880	-7,830
Miscellaneous Provincial Taxes	19,112	4,142	19,700	17,538	56,695	-53,982
Shared Federal Revenues	270	0	340	295	-1,018	-17
Total Entitlements	343,842	79,053	418,943	355,595	1,574,388	255,049

SOURCE: Third estimate for 1979–80 of payments under the *Federal-Provincial Fiscal Arrangements and Established* of Finance.

FEDERAL- PROVINCIAL FISCAL

Man.	Sask.	Alta.	B.C.	Seven Recipient Provinces
$93,058	$85,914	$-163,293	$-206,206	$795,353
20,032	20,180	-197,028	-56,433	318,363
37,640	10,544	-206,530	-116,616	364,262
4,084	6,075	-18,901	3,673	633
3,407	-3,339	-25,643	-2,578	34,742
1,776	-2,060	-14,136	66	12,613
-1,185	-7	-7,897	-6,837	19,306
-4,545	-13,706	-47,605	-14,919	34,567
-5,919	-5,686	-23,456	-26,984	73,486
1,838	3,873	-822	-14,001	12,150
887	3,513	3,173	-1,037	-1,915
3,945	7,061	1,804	-7,737	41,120
1,456	784	-1,686	-554	8,396
871	3,148	-2,364	754	15,319
17,679	13,581	32,730	-231,532	89,998
49,826	-88,872	-917,241	93,587	393,405
632	-5,741	-44,871	6,445	16,942
39,640	20,327	-684,043	-29,391	388,580
1,069	867	-22,014	2,589	10,803
12,072	-1,038	-185,716	-24,929	111,120
1,943	-1,261	-34,405	907	17,158
3,649	-12,135	9,963	-12,724	-6,295
-1,642	1,675	4,366	-3,681	-11,546
1,539	1,467	-2,440	43	3,768
2,291	5,415	-1,539	-5,679	32,743
2,960	-685	-56,947	-41,020	209,378
433	612	-205	-2,204	10,240
5,305	737	-50,735	-18,512	123,229
76	274	-227	8	237
294,817	51,517	-2,657,708	-715,502	3,118,155

Programs Financing Act, 1977, Canada, Department

Table 7

THE GOVERNMENT OF CANADA'S EQUALIZATION PAYMENTS, 1977–78 (in Canadian dollars)

Payments To	Total (in millions)	Per Capita
Newfoundland	$278	$494
Prince Edward Island	63	524
Nova Scotia	342	410
New Brunswick	273	398
Quebec	1,323	211
Manitoba	237	230
Saskatchewan	58	62
TOTAL	2,574	

SOURCE: Department of Finance, *Seventh Estimate of Fiscal Equalization*, March 31, 1980.

high levels of personal income, a large business community, and abundant revenue from natural resources . . . should not receive federal subsidies." Only Ontario never has received an equalization payment; however, it merited interim* entitlements "of $113 million for 1977–78, $203 million for 1978–79, and $255 million for 1979–80." Because its personal income per capita consistently has been above the national average, it was excluded from interim equalization payments pursuant to regulations. Two bills to exclude such provinces from final payments were introduced in Parliament. The first bill was introduced in December 1978. The second was introduced in May 1980 because the first bill expired when elections were called early in 1979. David Perry concludes the exclusion of Ontario is "rather arbitrary and creates obvious problems for the equalization program." The federal government undoubtedly took into account the size of payments to Ontario, and given the federal deficit, concluded payments of that magnitude would not be appropriate. "It may also be argued that making payments to Ontario, when its personal income per capita continues to be well above the national average per capita, would weaken

*The Federal Fiscal Arrangements Regulations, which govern equalization payments, provide for interim payments and final adjustment payments which need not be calculated until 35 months after the end of a fiscal year.

the overall credibility of the program." Whatever the reasons for excluding Ontario, Perry feels they will not be valid "over any extended period of time if Ontario continues to qualify for equalization. It is therefore clear that the treatment of Ontario is one of the principal matters that will have to be examined in establishing a new equalization formula when the present one expires at the end of the 1981–82 fiscal year."[5]

The other side of the Ontario coin is the whole question of revenue from natural resources and how to deal with it in the equalization program. Obviously, provinces with great resource reserves, particularly of oil and gas, began to reap immense revenue bonuses from 1974 on, while those provinces which lacked resources and had only traditional tax sources to rely on were disadvantaged. In an attempt to rectify the situation, the 1977 arrangements permit revenues from any nonrenewable resource to be equalized only up to 50%. "In addition, a ceiling was placed on equalization in respect of natural resource revenues of all kinds (both renewable and nonrenewable) so that not more than one-third of total equalization could relate to these revenues . . . The end result of . . . these changes is that although actual provincial revenues from oil and gas rose at an average of 46% a year from 1972–73 to 1979–80, the revenues taken into the [equalization] formula rose by less than 30% a year."

Despite this cutback, equalization entitlements for these revenues rose from an average of 18% of total equalization in 1972–73 to slightly more than 33.3% in 1980–81. As a consequence the natural resources ceiling has been triggered for the first time.

Economist J.F. Helliwell advocates augmenting or replacing equalization payments by establishing a provincial revenue sharing plan which would transfer revenue from provinces receiving more revenue than the average to those earning less than the average. "As it stands now," he argues, "if equalization payments were raised to compensate other provinces for Alberta's oil revenue, the bulk of the extra payments would have to come from provinces other than Alberta . . . . Consequently, a[n] . . . equalization system financed by federal tax revenue is unsuitable for transferring rapidly rising resource revenues from the richer to the poorer provinces . . . ." Rather, a provincial revenue sharing arrangement might be worked out, under which "the rate at which revenue would be redistributed would be set by interprovincial negotiation, with the upper limit determined according to the willingness of the richer provinces to share."

Helliwell is convinced such a system would have two great advantages: it would preserve "intact all constitutional resource rights, while making quite clear to the recipients that the system was made possible by the goodwill of the richer provinces;" and it would redistribute automatically "the forthcoming bulge in oil and gas revenues in a way that [would] not discriminate between those revenues and other forms of provincial revenues."[6]

Whatever change may eventuate, the resource revenue issue is bound to be a major point of contention in the intergovernmental negotiations concerning equalization leading to the 1982 fiscal arrangements.

One other attempt at lessening regional disparities which deserves brief comment is the federal government's regional development program under the auspices of the Department of Regional Economic Expansion. By and large, DREE, as it is nicknamed, has approached its assignment on the macro level by attempting to provide incentives to industry to locate or expand in below-par areas of the country and thus to generate sustained development in those regions over time. The focus has been on reducing regional disparities by providing employment opportunities, but rather than helping individuals with limited employment and mobility opportunities, the help has been extended to firms. The mechanism of transferring funds has been a General Development Agreement negotiated between the province and DREE. (Prince Edward Island, however, operates under a different kind of arrangement.) The program as a whole does not appear to have been very successful as the country's depressed regions remain in much the same status they occupied a decade ago at the program's inception. Besides changing the focus from aid-to-firms to aid-to-individuals, subsidies might be offered to unemployed persons for migration to areas of greater employment

opportunity, or equalization payments might be increased and DREE eliminated altogether.

Established Programs Financing

The third important area which the Fiscal Arrangements Agreement of 1977 covers is the financing of three big shared-cost programs whose antecedents date back many years—Hospital Insurance, Medicare, and Post-Secondary Education. "Part of the rationale for the expansion in 1967 of federal programs supporting Post-Secondary Education . . . was bringing the superior resources and credit standing of the federal government to bear in an area where heavy financial pressures were developing on provincial governments. A part of the background to the federal presence in Hospital Insurance and in Medicare was a concern for such national standards as portability of coverage across provincial boundaries. A more general argument, too, has been that, because other provinces or the nation as a whole may bear some of the social and economic costs produced by a shortfall in public services in a particular province, there is a broad national interest in certain minimum services being provided in all provinces." In all three programs as originally conceived, the federal government essentially matched provincial outlays on a dollar-for-dollar basis and with no maximum federal commitment. Over the years the federal government's costs increased sharply as the provinces, to varying degrees, added services and programs to be matched. For their part, the provinces began to feel federal incentives in these areas undermined their control over provincial priorities.

There were other considerations, of course, but by the mid-seventies it became necessary to rethink the arrangements, at least in the most extensive and expensive program areas.

Under the 1977 arrangements, a system of Established Programs Financing (EPF) was initiated to provide the provinces with the federal contribution toward the cost of hospital insurance, medical care, and post-secondary education. Under EPF, federal contributions no longer are related directly to provincial expenditures but instead are tied to the economy's growth rate. Federal government grants to the provinces for these programs no longer are tied to provincial outlays in the three specific program areas ("although the provinces have committed themselves to continue to meet certain standards in some key respects").

Under the new arrangements, the federal contribution consists of a cash payment in the form of a block grant, and tax transfers. The block grant consists of an equal per capita payment to each province. The initial payment level was set roughly equal to half the national average per capita amount (the other half to be provided by tax transfers) paid under the old program arrangements in 1975–76. In each succeeding year, payments are automatically adjusted to reflect growth in GNP. (As part of the negotiated settlement, this basic cash payment was supplemented by an unconditional grant equalling one percentage point of the personal income tax per capita in 1975–76.) The cash payments are divided among the three programs on the basis of their respective proportion of the total amount in the base year.

The second part of the federal support is provided through tax transfers. The federal government yielded 13.5 percentage points of the federal personal income tax and one percentage point of the federal corporate income tax to the provinces. The amounts provided to the province by the tax transfer are roughly equal since the general equalization program insures that no province receives less from the imposition of a tax than they would if they had a tax base of average size. There are also special transitional payments equal to the difference, if any, between the cash grant and the tax transfer to assure that no province loses as a result of its accepting part of the federal contribution in the form of a tax transfer.

Finally, a special arrangement was made to provide grants for the first time to the provinces under an Extended Health Service Program. Payments under this program (made on a per capita basis, escalated by growth in per capita GNP) assist the provinces in providing supplementary services in the health care field, such as residential care or nursing home care.

Table 8 presents a view of EPF at work for the 1977–78 fiscal year. Under the EPF arrangements, the federal contribution to the provinces for the three health programs and post secondary education will grow to about $470 per capita in 1981–82. The cash payments

Table 8

FEDERAL SHARE OF ESTABLISHED PROGRAMS FINANCING, 1977–78
(in millions of Canadian dollars)

	Cash Payments				Tax Transfers					
Payments To	**Hospital Insurance**	**Medicare**	**Post Secondary Education**	**Subtotal**	**Direct**	**Equalization**	**Subtotal**	**Total**	**Extended Health Care Transfer**	**GRAND TOTAL**
Newfoundland	$ 35	$ 12	$ 23	$ 71	$ 39	$ 35	$ 74	$ 144	$ 11	$ 156
Prince Edward Island	7	3	5	14	8	8	16	30	2	33
Nova Scotia	56	20	37	113	74	36	110	223	17	240
New Brunswick	44	15	28	87	55	37	91	179	14	193
Quebec	470	167	305	941	731	92	823	1,764	125	1,890
Ontario	552	196	358	1,106	1,300		1,300	2,406	169	2,575
Manitoba	69	25	45	139	114	22	136	275	21	295
Saskatchewan	61	22	39	122	100	24	124	246	19	265
Alberta	130	46	85	261	256		256	518	37	555
British Columbia	147	52	96	295	385		385	680	51	731
TOTAL	1,572	558	1,020	3,150	3,061	254	3,315	6,465	467	6,932

Notes to table

1. Component figures may not add exactly to totals because of rounding.
2. Under the new arrangements for financing established programs, the federal government's contribution is not linked specifically to provincial outlays. The distribution of the cash payments among the programs therefore is arbitrary; the figure here for each program is based on its share of the total for the three programs in the 1975–76 fiscal year.
3. The figures are estimates for 1977–78 rather than final figures and do not include adjustments to be made during 1977–78 in respect of payments during previous years.
4. The direct tax transfer consists of an abatement of 13.5 percentage points of federal personal income tax and 1% of taxable corporate income. The equalization payments associated with these taxes and shown in this table also are included in the equalization payments shown in *Table 7*.
5. The cash amount for Quebec includes the value of a personal income tax abatement to place the figure on the same basis as those for the other provinces.

SOURCE: Treasury Board, *Federal Expenditure Plan, How your tax dollar is spent*, Ottawa, 1977, Table 22. *Minutes of Proceedings and Evidence of Standing Committee of House of Commons on Finance, Trade and Economic Affairs*, March 8, 1977, Appendix "FTE-12."

require federal outlays of $6.4 billion while the tax transfer reduces federal revenues by about $5 billion.

IMPACT OF THE 1977 ARRANGEMENTS

As a result of the 1977 arrangements in operation, the structure of Canadian fiscal arrangements has been moved "closer to the structure of responsibilities provided for in the Constitution. . . ."[7] At the same time, the provinces' financial position has been improved substantially. "Counting the equalization payments associated with the transferred tax points, the federal contribution for 1977–78 [was] $924 million higher than it would have been [under the old arrangements];" and the difference continues to grow. In addition, the federal government "now has clearly defined obligations for its contributions in support of three of the major shared-cost programs. . . . It also has the assurance that the provinces will continue to maintain standards in such facets of these programs as portability and degree of coverage." For their part, the provinces are considerably freer than they were to devise their own programs, and they are assured of continuing, predictable receipts. Nor do they have to submit to detailed federal monitoring and auditing of their outlays in the three EPF areas.

Summing up, the Bank of Nova Scotia concluded

> because there is no longer dollar-for-dollar federal matching of provincial spending, any progress a provincial government is able to make in containing the growth of its spending in these [EPF] areas will be completely, rather than half, reflected in a betterment of its fiscal position. All told, the new arrangements are an entry on the constructive side of the national ledger.

On the other hand, evidence indicates that a number of entries may be made on the opposite side of the ledger. Merely continuing "federal cash grants in support of programs at the provincial level is a measure of the extent to which a revenue-responsibility mismatch may still exist," unless the federal government's cost in this connection is justified because it assures maintenance of "the portability of Canadian citizenship" and the right of all citizens to "basic levels of services. . . the same in every part of the country."[8] Whether that assurance is present may be subject to question. As Carl Law noted in *The Financial Post*, "Ottawa suspects the provinces are taking the money and running. They contribute some funds of their own, but it appears several [provinces] are nowhere near the level of dollar-for-dollar matching. A futher problem is that the federal government has no accountability mechanism sensitive enough to quantify those suspicions in accurate figures."[9]

In any case, it was not clear in the EPF arrangements if federal grants were intended to be used wholly in the designated areas of health and education or whether part of the funds could be used at provincial discretion to cover losses incurred by them in other parts of the overall fiscal arrangement. The provinces generally have taken the latter view, so "there is no question that EPF has proved both a boon to provincial treasuries and an invitation for provinces to increase their gains by eroding their services" in those areas. To some extent, they have cut back on their own expenditures or have added charges for some services that were formerly free, particularly in the health field, resulting in some "falling away from the principles of public financing, comprehensive coverage, and universal access," which Canadians had come to expect to be observed.[10] Enough concern has been voiced about falling away in the health care (Medicare) area that the entire program currently is under review by a royal commission headed by Justice Emmett Hall, who fathered the 1964 report on the subject and is generally regarded as the father of Medicare in Canada. His report may provide some guidelines to ensure continuation of comprehensive medical care coverage in Canada.

Finally, it should be noted, as Health Minister David Crombie in Prime Minister Clark's government observed, the 1977 Fiscal Arrangements Act "could have done two things . . . it did [not]: bring together a hodgepodge of enabling legislation under one roof [and] define once and for all medicare's guidelines so there would be a legislative base" for deter-

Table 9

CONDITIONAL GRANTS AND SHARED-COST PROGRAMS AS OF MARCH 31, 1976 AND 1977
(in thousands of Canadian dollars)

Department and Project	Provinces Participating[1] 1976	Provinces Participating[1] 1977	Federal Contribution 1976	Federal Contribution 1977
AGRICULTURE				
Crop Insurance	10	10	$ 48,276	$ 56,457
4-H Club Assistance	10	10	177	181
Freight on Livestock Shipments To and From the Royal Agricultural Winter Fair, Toronto	—	8(PEI, Ont.)	—	114
Crop Loss Assistance	Que., Man.	8(Ont., Man.)	1,405	2,641
Contributions for Rabies	Que., Ont., Man., Sask.	Que., Ont., Man., Sask.	90	84
Aid to Universities—(veterinary teaching)	Que., Ont.	9(Ont.)	1,693	51
Other	7(PEI, Que., Ont.)	—	65	—
EMPLOYMENT AND IMMIGRATION				
Agricultural Manpower	10	10	3,462	3,438
Manpower Training Research	PEI, NB, Ont., Sask.	PEI, NB, Ont., Sask.	158	31
ENERGY, MINES AND RESOURCES				
Aeromagnetic Surveys	Nfld., Que., BC + NWT	Que., BC + NWT	1,219	1,174
BC-YT-NWT boundary and Sask.—NWT boundary	Sask., BC	BC	49	42
Mineral Development Program	Nfld., Sask.	Sask.	710	276
Alberta Iron Processing and Peace River Iron Ore Programs	Alta.	Alta.	129	42
Assistance to Provinces For Energy Substitution and Conservation Programs	—	PEI, NS	—	33,765
Bay of Fundy Tidal Power Study	NS, NB	NS, NB	142	824
Energy and Energy-related Research Fund	—	Alta.	—	4,000
Non-renewable Resource Evaluation	Man., Sask.	Man.	228	182
Uranium Reconnaissance Program	Ont., Man., Sask.	NB., Ont., Man., Sask., BC	357	667
Saskatchewan Heavy Oils Program	Sask.	—	200	—
ENVIRONMENT				
Metropolitan Toronto and Upper Thames	Ont.	Ont.	—	6
Migratory Birds Crop Depredation	Man., Sask., Alta.	Man., Sask., Alta.	1,000	826
Shore Damage to Property on Great Lakes	Ont.	Ont.	141	50

Industrial Development	7(Man., Sask., Alta.)	8(Sask., Alta.)	1,250	652
Fraser River Flood Control	BC	BC	4,368	6,336
Environmental Assessment	Que.	Que.	491	493
Delta Project—Manitoba	Man.	Man.	776	463
Alberta Oil Sands Environment Research Program	Alta.	Alta.	629	622
Flood Risk Mapping Agreement	—	NB, Que., Ont., Man.	—	183
Forest Engineering Research Institute of Canada	Nfld., Que.	Que.	756	1,000
Montreal Area Flooding	Que.	Que.	225	514
Okanagan Basin Implementation	—	BC	—	71
Prairie Provinces Water Board	Man., Sask., Alta.	Man., Sask., Alta.	72	72
Preservation of Atlantic Salmon in Saint John River	—	NB	—	200
Qu'Appelle Valley Agreement	Sask.	Sask.	1,000	731
Solid Waste Disposal and Management	—	NS, Ont.	—	35
Souris River Study	Man., Sask., Alta.	Man., Sask.	338	176
Southwestern Ontario Dyking	Ont.	Ont.	2,377	1,454
St. Lawrence Water Quality Studies	Que.	Que.	400	434
Feasibility Study of Reclaiming Marketable Waste Paper	—	Ont.	—	13
Canada Land Inventory	Nfld., Man., BC	—	76	—
Churchill, Nelson Basin Studies	Sask.	—	533	—
Hydrometric Agreements	Ont., Man., Sask.	—	853	—
Lac Seoul Agreement	Que.	—	15	—
Lake Winnipeg, Nelson and Churchill Rivers	Man.	—	76	—
Prince Rupert Environment Assessment	BC	—	14	—
Riviere des Roches Weir	Sask., Alta.	—	962	—
Water Quality, Great Lakes and Lower Lakes	Ont.	—	1,660	—
INDIAN AFFAIRS AND NORTHERN DEVELOPMENT				
Community Development and Off Reserve	Nfld.	Nfld.	4,664	4,500
Child Care Agreement	Man., Sask.+YT	Man., Sask.+YT	222	2,438
Maintenance of Highway—Rocky Harbour to St. Pauls	Nfld.	Nfld.	218	213
Forest Fire Protection Agreements	Ont.	Ont., Man., Sask.	58	166
Registered Trapline Fur Agreement	Man.	Man.	220	440
Roads On and To Reserves	Sask.	Man., Sask.	190	521
Natural Resources Agreement	Ont.	Ont.	200	312
Purchase of Land	Nfld., PEI, BC	Nfld., NB, BC	3,381	2,311

Table 9 (Continued)

CONDITIONAL GRANTS AND SHARED-COST PROGRAMS AS OF MARCH 31, 1976, AND 1977,
(in thousands of Canadian dollars)

Department and Project	Provinces Participating[1] 1976	Provinces Participating[1] 1977	Federal Contribution 1976	Federal Contribution 1977
Agricultural Representative Agreement	—	Sask.	—	130
Development Services Wildlife Agreement	—	Man.	—	398
Forestry Operations	Man.	Man.	15	25
Fredericton Military Compound	NB	NB	226	20
High-level Fixed Highway Bridge Across Chambly Canal	Que.	Que.	487	163
Indian Policing Agreements	Ont.	Ont.	250	588
Maintenance of National Historic Parks	PEI, NB, BC	PEI, BC	1,003	800
Qu'Appelle-Corridor Recreation and Tourism Planning	—	Sask.	—	89
Canada—Ontario—Rideau, Trent, Severn Waterways	Ont.	—	46	—
Vocation and Technical Training	Ont.	—	128	—
INDUSTRY, TRADE AND COMMERCE				
Tourism	10 + YT	10 + YT and NWT	803	1,525
JUSTICE				
All Programs Included	10 + YT and NWT	10 + YT and NWT	12,884	13,487
NATIONAL DEFENSE				
Contributions to Provinces and Municipalities for Civil Defense Purposes	10 + NWT	10 + YT and NWT	1,500	1,500
NATIONAL HEALTH AND WELFARE				
Health Care Programs				
Health Resources Fund Act	9(PEI)	8(PEI, Alta.)	20,000	24,050
Training of Health Personnel	10	10 + NWT	2,252	2,190
Medical Care Act	10 + YT and NWT	10 + YT and NWT	795,796	1,003,583
Hospital Insurance and Diagnostic Services Act	10 + YT and NWT	10 + YT and NWT	2,379,617[2]	2,734,191[3]
Income Security and Social Assistance Programs				
Old Age Security	Nfld., Que., Ont., Man., Alta.	Nfld., Que., Ont.	39[2]	17Cr.[3,4]
Blind Persons Allowance	9(BC)+NWT	9(BC)	794[2]	621[3]

Disabled Persons Allowance	9(BC)+NWT	9(BC)	1,153[2]	607[3]
Guaranteed Income Experimental Projects	Man.	Man.	2,844[2]	3,120
Unemployment Assistance	Alta.+NWT	Alta.	5[2]	76Cr.[3,4]
Canada Assistance Plan	10 + YT and NWT	10 + YT and NWT	1,364,690[2]	1,595,932[3]
Services to Young Offenders	NB, Ont.	NB, Ont.	16,967	15,797
Nursing Home Care	Ont., Man., Alta.	Ont., Man., Alta.	56,708	63,661
National Welfare Grants	NS, NB, Ont. + NWT	Ont., Sask. + NWT	35	31
Vocational Rehabilitation of Disabled Persons	9(QUE.)+YT and NWT	9(Que.) + YT and NWT	20,611	23,560
PUBLIC WORKS				
Maintenance Cost of Perley Bridge (agreement that federal government pay 75%, Ontario 25%). Maintenance cost of Macdonald-Cartier Bridge (agreement that federal government pay 33 1/3%, Ontario 66 2/3%).	Ont.	Ont.	2,590	85
REGIONAL ECONOMIC EXPANSION				
Fund for Rural Economic Development (FRED)				
Agricultural and Rural Development (ARDA)				
Special Areas Infrastructure and Highways	10	10	280,576[5]	281,228[5]
General Development Agreements				
Interim Planning Agreements				
Miscellaneous Agreements				
SECRETARY OF STATE	10	10	534,993	648,700
Post-secondary Education				
Language Texts for Citizenship	Que., Ont., Man., Alta.	6(Nfld., PEI, NB, BC)	158	193
Classes	10+YT and NWT	10+YT and NWT	111,755	162,934
Bilingualism Development				
Citizenship and Language Instruction for Immigrants	NS, Que., Ont., Man., Alta.	7(Nfld., PEI, NB)	1,130	3,930
TRANSPORT				
Contributions to Assist in Extending the Network of Highways and Road Facilities in the Northern Part of the Province	Man., Sask., Alta., BC	Man., Sask., Alta., BC	10,000	10,735

Table 9 (Continued)

CONDITIONAL GRANTS AND SHARED-COST PROGRAMS AS OF MARCH 31, 1976, AND 1977, (in thousands of Canadian dollars)

Department and Project	Provinces Participating[1] 1976	Provinces Participating[1] 1977	Federal Contribution 1976	Federal Contribution 1977
Contributions to Assist in Upgrading the Primary Highway Network	Man., Sask., Alta.	Man., Sask., Alta.	21,875	26,702
Contributions in the Construction and Operation of Certain Rail Lines	—	BC	—	54,000
URBAN AFFAIRS				
National Capital Commission	Que., Ont.	Que., Ont.	19,141	6,130

[1] Provinces not participating are shown in parentheses.
[2] "Contracting out" has occurred. In order to be consistent, the total federal contribution has been included, although the contribution may have taken the form of a tax abatement and an operating cost adjustment payment or recovery.
[3] Includes the contribution to Quebec under the Established Programs (Interim Arrangements) Act, which may have taken the form of a tax abatement and an operating cost adjustment payment or recovery.
[4] Cr. indicates a recovery.
[5] Excludes amounts of $3,940 for 1976 and $6,548 for 1977, which were not allocated by province.

mining whether the provinces acting under it have preserved the principles of universal access. "In fact, it did [not] do either of these things—even worse, the federal government left itself with, in effect, no monitoring or suasive powers." Moreover, based on the intergovernmental consultation process as it is, the act cannot be amended without the consent of all the provinces; even then by its own terms it requires three years' notice to terminate federal payments. "The only power the federal government really has [is] cutting funding [which] is almost certainly politically untenable."[11]

Nor, finally, did the 1977 arrangements touch the whole matter of borrowing. No balanced budget concept was built into the arrangements, nor was a limit placed on the ability of governments to issue debt. Thus deficit spending seems to be assumed as a proper course of action. The federal government relies most heavily on the issuance of bonds and debentures and to a lesser extent on short-term notes (payables), while the provinces and municipalities use a broader range of sources for borrowed funds, including borrowings from financial institutions and loans and advances from the federal government.

Canada Assistance Plan

One major shared-cost program not included under the Established Programs Financing is the Canada Assistance Plan (*Table 9*). This is a major program designed to provide adequate assistance to needy Canadians which became effective in 1966. It is perhaps unique among products of the intergovernmental consultation process in that it came about as the result of provincial initiatives, with federal policy then designed to accomodate Alberta and Ontario. As the plan was developed, federal negotiators had to make changes and concessions to ensure provincial support for the program, the reverse of the more common situation in which the federal side proposes and the provincial side responds.[12]

The provinces conduct three general types of programs under CAP:

— public assistance to needy individuals and families.

— child welfare, including child protection, juvenile delinquency programs, services to unmarried mothers, and adoption services.

— preventive social services, including community development programs, early childhood services, counseling services, homemaker projects, and senior citizens services.

The federal government pays half the costs of operating the several programs in each province. The province may choose to administer a program itself, designate a municipality as a "provincially approved agency" to conduct a program (in which case it may pass on to the municipality a share of the program costs), or may use agencies operated by private groups which may be designated as "provincially approved agencies." The federal government establishes programs which are eligible for cost-sharing; the provinces determine which particular individuals and families receive payments under the plan and which projects will be developed for consideration by the federal government. A province may not require a residence period as a condition of assistance eligibility. At the provincial authority's request, the federal government, through the federal Department of Health and Welfare, will make available to a province, where feasible, consultative services for developing and operating assistance and welfare services programs.

Other Shared Cost Programs

Over the years the federal and provincial governments have negotiated between them agreements to share costs through conditional grants in a wide variety of fields, and those agreements today are one of the distinctive features of Canadian federalism. The most important grants under these agreements are those which compensate a province for one-half of its costs within the defined area. A typical program is the $18 million agreement between Ottawa and Saskatchewan, initiated in 1980, which provides that over four years the two governments will share equally the costs of projects demonstrating the potential for energy savings or encourage the development of alternative energy sources. *Table 9* lists the shared cost programs in effect in 1976 and 1977 (including the Canada Assistance Plan and those subsumed under the 1977 Fiscal Arrangements Act). The many agreements and programs come in a variety of guises and involve a range of financing, payment, and management arrangements. Some programs are regarded by the parties to them as temporary or one-time arrangements; others obviously are regarded by the parties as relatively permanent, since they do not involve a set termination date. As *Table 9* demonstrates, some of the programs are bilateral, while others are multilateral.

Although *Table 9* suggests the number, variety, and range of individually negotiated federal-aid arrangements between the federal government and the provinces, it does not suggest the continuing attention given to developing and nurturing shared cost programs by agencies and departments of these two governmental levels. The total aid package of each province constantly is being altered as new agreements are reached and old ones are redrawn or dropped. Thus it is hard to ascertain at any particular moment the federal government's total shared cost commitment to the provinces, or how much federal money is coming into each province at any one time as a result of all existing financial agreements. Nor is it clear to the average Canadian citizen just what the mix of governmental funding is in the range of governmental services he receives, inasmuch as shared cost arrangements vary from one program to another. Survey data from Ontario in 1975 show a substantial proportion of respondents "had no idea" (or were not willing to indicate they did) of then-existing fiscal arrangements between governments or of the total tax burden they bore to support them.[13] (Recognizing that problem, the federal and New Brunswick governments negotiated an agreement in 1978 to cooperate in informing citizens about jointly financed programs; a similar agreement has been in effect since 1975 with Manitoba.) Moreover, the division of labor in most shared cost programs between federal and provincial administrative agencies reduces the possibility of both governments' accountability for the operating programs' effectiveness.

Special Financial Arrangements Between the Federal Government and Quebec*

Since 1964 the federal government has had special financial arrangements with Quebec, often referred to as the "contracting out" arrangements. These arrangements relate mainly to financing hospital insurance (now a part of Established Programs Financing), and the Canada Assistance Plan. While other provinces receive large federal transfers for these programs in the form of cash, for Quebec these cash transfers have been replaced partially by a personal income tax transfer, effected by a reduction in the amount of federal tax Quebec residents must pay, enabling that Province to increase its tax correspondingly. The amount of reduction in federal revenues from the personal income tax is taken off the federal cash transfers which otherwise would be paid to Quebec. As a consequence, Quebec has no financial advantage over the other provinces. However, it has an enlarged income tax system and is less dependent upon federal cash transfers than other provinces. This arrangement originally was offered to all provinces, but only Quebec accepted the offer. As of 1979–80, approximately $800 million was transferred to Quebec through this special contracting-out arrangement.

* This section is reproduced virtually verbatim from a "Summary of Intergovernmental Fiscal Arrangements in Canada," supplied by D.H. Clark, Assistant Director, Federal-Provincial Relations Division, Department of Finance, in Ottawa.

FOOTNOTES

[1] See Bird, *Financing Canadian Government*. . . . Advisory Commission on Intergovernmental Relations, *In Search of Balance—Canada's Intergovernmental Experience*, Report M–68, Washington, The Commission, 1971; and Auld, *Contemporary and Historical Economic Dimensions of Canadian Conferation*.

[2] The Bank of Nova Scotia, "The New Federal-Provincial Fiscal Arrangements," *Monthly Review*, Toronto, March-April 1977. Unless otherwise indicated, the quotations in this chapter are from that source.

[3] Economic Council of Canada, Fourteenth Annual Review, *Into the 1980s*, 1977, pp. 26–27.

[4] Province of Alberta, Department of Federal and Intergovernmental Affairs, *Inventory of Federal-Provincial Programs in Alberta, 1977–1978*, Edmonton, The Department, 1979, p. 579.

[5] David B. Perry, "Fiscal Figures. Equalization and Shifting Provincial Revenues," *Canadian Tax Journal*, 27:731–732, November/December 1979.

[6] J.F. Helliwell, remarks to the 1979 annual conference of the Canadian Tax Foundation, quoted by Edward Clifford, *The Globe and Mail*, November 27, 1979, p. B2. See also Helliwell's paper for the Seminar on Canadian-U.S. Relations at Harvard University, February 1980, "The Distribution of Energy Revenues within Canada: Functional or Factional Federalism?"

[7] Michael Walker, ed., *Canadian Confederation at the Crossroads: The Search for a Federal-Provincial Balance*, Vancouver, The Fraser Institute, 1978, p. 12.

[8] *Ibid.*

[9] *The Financial Post*, March 15, 1980, p. 3.

[10] Leonard Shifrin, "Health System Eroded," *Report*, December 1979/January 1980, p. 8.

[11] As quoted by Carl Law, *The Financial Post*, March 15, 1980, p. 3.

[12] Leslie Bella, "The Provincial Role in the Canadian Welfare State: The Influence of Provincial Social Policy Initiatives on the Design of the Canada Assistance Plan," *Canadian Public Administration*, 22:439–52, Fall 1979.

[13] D.A.L. Auld, "Public Sector Awareness and Preference in Ontario," *Canadian Tax Journal*, 27:174, March/April 1979.

Chapter 6

Taxes and Deficits

This chapter details the revenues and expenditures of the two principal levels of government in Canada and makes some observations about problems in the Canadian economy's public sector.

As suggested in *Chapter 1*, both levels of government in Canada are endowed with adequate revenue-raising powers. Although framers of the BNA Act distinguished between the two levels by giving the federal government authority to raise "Money by any Mode or System of Taxation" (section 91.3) and the provinces authority to levy direct taxes "within the Province in order to the raising of a Revenue for Provincial Purposes" (section 92.2), as time went by and the provinces exerted their power to tax, and courts interpreted the meaning of the BNA Act's grants, it became clear that in fact both the federal government and the provinces have constitutional access to all the major forms of taxation, i.e., taxation of wealth, income, consumption and resource rents.[1]

In practice, the federal government derives nearly all its revenues from taxes on income and consumption (including customs duties); it does, however, obtain a relatively small amount of revenue from resource rents, partly through an export tax on oil. The provinces also derive revenues from taxes on income, consumption, and resource rents. Their overall revenues from resource rents have grown rapidly in recent years, but they accrue almost entirely to the three westernmost provinces containing between them less than one-quarter

Table 10

REVENUES BY LEVEL OF GOVERNMENT, BEFORE AND AFTER INTERGOVERNMENTAL TRANSFERS, NATIONAL ACCOUNTS BASIS, 1926–79 (dollar figures in millions of Canadian dollars)

	Revenues From Own Source				Percent Distribution of Own Source Revenue			Revenue After Intergovernmental Transfers			Percent Distribution of Revenue After Transfers		
Year	Federal	Provincial	Local	Total Revenue	Federal	Provincial	Local	Federal	Provincial	Local	Federal	Provincial	Local
1926	$ 389	$ 156	$ 322	$ 867	44.9%	18.0%	37.1%	$ 374	$ 154	$ 339	43.1%	17.8%	39.1%
1927	404	168	334	906	44.6	18.5	36.9	388	164	354	42.8	18.1	39.1
1928	449	184	349	982	45.7	18.7	35.5	432	179	371	44.0	18.2	37.8
1929	418	209	375	1,002	41.7	20.9	37.4	401	203	398	40.0	20.3	39.7
1930	293	210	375	878	33.4	23.9	42.7	268	209	401	30.5	23.8	45.7
1931	249	190	366	805	30.9	23.6	45.5	193	202	410	24.0	25.1	50.9
1932	233	179	356	768	30.3	23.3	46.4	171	213	384	22.3	27.7	50.0
1933	266	177	337	780	34.1	22.7	43.2	210	223	347	26.9	28.6	44.5
1934	316	186	351	853	37.0	21.8	41.1	245	241	367	28.7	28.3	43.0
1935	332	229	361	922	36.0	24.8	39.2	258	291	373	28.0	31.6	40.5
1936	422	267	365	1,054	40.0	25.3	34.6	331	341	382	31.4	32.4	36.2
1937	485	298	358	1,141	42.5	26.1	31.4	380	382	379	33.3	33.5	33.2
1938	437	305	364	1,106	39.5	27.6	32.9	351	368	387	31.7	33.3	35.0
1939	481	311	370	1,162	41.4	26.8	31.8	402	365	395	34.6	31.4	34.0
1940	884	361	377	1,622	54.5	22.3	23.2	814	409	399	50.2	25.2	24.6
1941	1,523	386	390	2,299	66.2	16.8	17.0	1,469	416	414	63.9	18.1	18.0
1942	1,957	430	393	2,780	70.4	15.5	14.1	1,892	465	423	68.1	16.7	15.3
1943	2,380	458	403	3,241	73.4	14.1	12.4	2,321	484	436	71.6	14.9	13.5
1944	2,524	474	414	3,412	74.0	13.9	12.1	2,456	491	465	72.0	14.4	13.6
1945	2,385	538	415	3,338	71.4	16.1	12.4	2,309	558	471	69.2	16.7	14.1
1946	2,555	619	440	3,614	70.7	17.1	12.2	2,458	644	512	68.0	17.8	14.2
1947	2,696	780	485	3,961	68.1	19.7	12.2	2,584	798	579	65.2	20.1	14.6
1948	2,681	879	540	4,100	65.4	21.4	13.2	2,567	873	660	62.6	21.3	16.1
1949	2,659	925	583	4,167	63.8	22.2	14.0	2,512	925	730	60.3	22.2	17.5
1950	2,972	1,013	649	4,634	64.1	21.9	14.0	2,769	1,055	810	59.8	22.8	17.5
1951	4,113	1,194	746	6,053	67.9	19.7	12.3	3,906	1,215	932	64.5	20.1	15.4
1952	4,492	1,320	850	6,662	67.4	19.8	12.8	4,319	1,288	1,055	64.8	19.3	15.8
1953	4,563	1,410	922	6,895	66.2	20.4	13.4	4,397	1,346	1,152	63.8	19.5	16.7
1954	4,344	1,481	994	6,819	63.7	21.7	14.6	4,178	1,401	1,240	61.3	20.5	18.2

1955	4,745	1,640	1,073	7,458	63.6	22.0	14.4	4,558	1,515	1,385	61.1	20.3	18.6
1956	5,411	1,865	1,220	8,496	63.7	22.0	14.4	5,213	1,710	1,573	61.4	20.1	18.5
1957	5,455	2,075	1,357	8,887	61.4	23.3	15.3	5,151	1,939	1,797	58.0	21.8	20.2
1958	5,163	2,216	1,489	8,868	58.2	25.0	16.8	4,746	2,082	2,040	53.5	23.5	23.0
1959	5,871	2,489	1,686	10,046	58.4	24.8	16.8	5,259	2,479	2,308	52.3	24.7	23.0
1960	6,228	2,629	1,853	10,710	58.2	24.5	17.3	5,523	2,605	2,582	51.6	24.3	24.1
1961	6,473	2,860	1,982	11,315	57.2	25.3	17.5	5,651	2,823	2,841	49.9	24.9	25.1
1962	6,899	3,396	2,142	12,437	55.5	27.3	17.2	5,845	3,358	3,234	47.0	27.0	26.0
1963	7,323	3,639	2,286	13,248	55.3	27.5	17.3	6,154	3,625	3,469	46.5	27.4	26.2
1964	8,355	4,189	2,396	14,940	55.9	28.0	16.0	7,103	4,117	3,720	47.5	27.6	24.9
1965	9,095	4,949	2,646	16,690	54.5	29.7	15.9	7,664	4,888	4,138	45.9	29.3	24.8
1966	9,984	5,782	2,956	18,722	53.3	30.9	15.8	8,320	5,615	4,787	44.4	30.0	25.6
1967	10,906	6,782	3,298	20,986	52.0	32.3	15.7	8,914	6,708	5,364	42.5	32.0	25.6
1968	12,218	7,966	3,658	23,842	51.2	33.4	15.3	9,846	8,024	5,972	41.3	33.7	25.0
1969	14,490	9,293	4,067	27,850	52.0	33.4	14.6	11,764	9,470	6,616	42.2	34.0	23.8
1970	15,528	10,548	4,438	30,514	50.9	34.6	14.5	12,131	10,797	7,586	39.8	35.4	24.0
1971	17,241	11,744	4,748	33,733	51.1	34.8	14.1	12,918	12,528	8,287	38.3	37.1	24.6
1972	19,560	13,253	5,214	38,027	51.4	34.9	13.7	15,002	13,791	9,234	39.5	36.3	24.3
1973	22,809	15,880	5,582	44,271	51.5	35.9	12.6	18,002	16,226	10,043	40.7	36.7	22.7
1974	29,978	20,039	6,247	56,264	53.3	35.6	11.1	23,813	20,937	11,514	42.3	37.2	20.5
1975	31,703	22,253	7,303	61,259	51.8	36.3	11.9	24,033	23,270	13,956	39.2	38.0	22.8
1976	35,437	26,014	8,677	70,128	50.5	37.1	12.4	26,915	27,220	15,993	38.4	38.8	22.8
1977	36,146	30,954	9,548	76,648	47.2	40.4	12.5	26,179	32,001	18,468	34.2	41.8	24.1
1978	37,644	35,216	10,443	83,303	45.2	42.3	12.5	26,787	36,556	19,960	32.2	43.9	24.0
1979	43,269	39,525	11,271	94,065	46.0	42.0	12.0	31,483	39,944	22,638	33.5	42.5	24.1
						Excluding Oil Export Tax							
1974	28,360	20,039	6,247	54,646	51.9	36.7	11.4	22,195	20,937	11,514	40.6	38.3	21.1
1975	30,582	22,253	7,303	60,138	50.9	37.0	12.1	22,912	23,270	13,956	38.1	38.7	23.2
1976	34,737	26,014	8,677	69,428	50.0	37.5	12.5	26,215	27,220	15,993	37.8	39.2	23.0
1977	35,670	30,954	9,548	76,172	46.8	40.6	12.5	25,703	32,001	18,468	33.7	42.0	24.2
1978	37,350	35,216	10,443	83,009	45.0	42.4	12.6	26,493	36,556	19,960	31.9	44.0	24.0
1979	42,541	39,525	11,271	93,337	45.6	42.3	12.1	30,755	39,944	22,638	33.0	42.8	24.3

SOURCE: Data provided by the Federal-Provincial Relations Division, Department of Finance, Canada.

of the nation's population. The resource revenues are distinctive as most of them come from resources actually owned by the provinces up to the time of their severance. Municipalities and other local governments, of course, have only those areas of tax power permitted them by the provinces. For the most part, as indicated earlier in this study, they have been left the property tax field, and they have cultivated it intensely.

OVERALL GOVERNMENT REVENUES

There has been almost a total reversal in the governmental revenue picture in Canada since World War II. In 1945, Ottawa received 71.5% of all revenues derived from taxes in the nation; the provinces and local governments received the remainder. In 1979, Ottawa's share had been reduced to 45.6% with the rest going into provincial and local coffers.[2]

Not only have the last three decades seen a shift in the flow of funds from federal to provincial treasuries, but also they have witnessed a large growth in the total amount of revenue collected and "a major shift in the income sources of all public sectors."[3] *Table 10* shows the trend in overall revenues from 1926 to 1979, while *Table 11* shows each level of government's revenue, by source, for 1978.

In terms of sources, total governmental revenues from both indirect taxes and direct taxes on corporations and government business enterprises have declined significantly over the past thirty years. In 1950, indirect taxes accounted for 48% of all government revenue and were by far the largest income producer; by 1978, they accounted for only 34% of public funds. Direct taxes on corporations declined from 22.4% of government revenue in 1950 to slightly less than 10% in 1978. Both levels of government have shifted significantly to direct taxes on persons; personal income has become the preferred tax base of both the federal and the provincial governments. The proportion of revenue generated from direct taxes on persons increased from 20.6% of revenue in 1950 to 40.3% of revenue in 1978.

Since 1974, the federal government has been indexing the personal income tax brackets to the rate of inflation. This policy is designed to preclude individuals from moving into a higher tax bracket solely because of wage increases that only keep up with prices. Indexing thus has kept personal income taxes from accounting for an even larger share of government revenue in recent years. *Charts 1, 2, and 3* illustrate graphically the percentage distribution of government revenue among the several revenue sources.

The charts indicate the rising importance of investment income as a revenue source for governments in recent years. As a share of total revenue, investment income has more than doubled since 1950. Part of the reason for this sharp increase is attributable to interest revenues of the Canada and Quebec Pension Plans and to interest from such government-held funds as public service superannuation accounts. More recent figures would indicate the revenue being derived in Alberta and Saskatchewan from their provincial heritage funds.

Chart 4 makes it clear indirect taxes have remained constant as a percentage of GNP since 1950, while corporate taxes as a percentage of gross corporate profits have declined and personal direct taxes as a percentage of total personal income have risen considerably, though they appear to be declining toward the end of the period.

Finally, all levels of government in Canada derive funds from borrowing. The BNA Act does not limit the ability of either the federal government or the provinces to borrow, though the provinces control borrowing by local governments in a variety of ways. During the 1970s borrowing increased at all levels of government. Most of these increases occurred after 1973 in the case of the federal government and after 1974 in the cases of the provinces and local governments. The most striking increases have occurred at the federal level since 1976 and are attributable to the higher federal deficits of recent years. As of 1979, total federal borrowing was $7,632 million, total provincial borrowing $2,720 million and total municipal borrowing $617 million.[4]

REVENUES OF THE FEDERAL GOVERNMENT

Chart 5 clearly indicates federal revenue grew about equally with GNP for much of the

Table 11

NATIONAL ACCOUNTS BUDGET FOR ALL LEVELS OF GOVERNMENT: Preliminary 1978

Revenue (excluding intergovernmental transfers) (in millions of Canadian dollars)

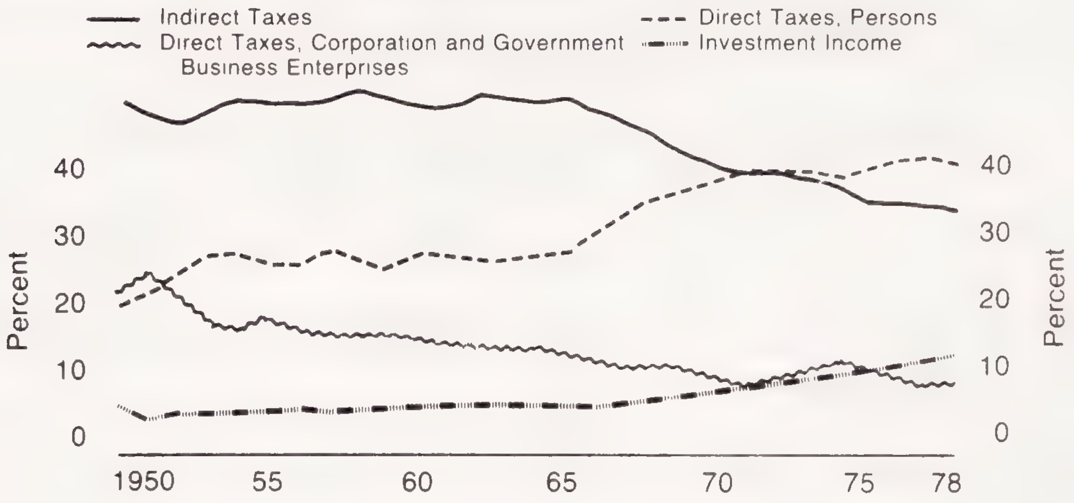
	Federal	Pro-vincial	Local	Hospi-tals	CPP/* QPP	Total
Direct Taxes—Persons[e]	$17,387[e]	$13,039[e]	—	—	$2,736[e]	$33,152[e]
Income Taxes	13,211	11,059	—	—	—	24,270
Contributions to Pension Plans (governmental)[a]	1,343	470	—	—	—	1,813
Contributions to Unemployment Insurance[a]	2,814	—	—	—	—	2,814
Contributions to Workmen's Compensation	—	1,400	—	—	—	1,400
Direct Taxes—Corporate and Government Business Enterprises	5,921	2,461	—	—	—	8,382
Direct Taxes—Non-resident	582	—	—	—	—	582
Indirect Taxes	9,707	10,442	$ 8,511	—	—	28,660
Customs Duties	2,591	—	—	—	—	2,591
General Sales Taxes	4,766	4,567	—	—	—	9,333
Alcohol and Tobacco[b]	1,284	1,654	—	—	—	2,938
Oil Export Tax	296	—	—	—	—	296
Gasoline	567	1,670	—	—	—	2,237
Real and Personal Property Taxes	—	93	7,400	—	—	7,493
Other	203	2,458	1,111	—	—	3,772
Other Transfers from Persons	16	1,796	120	$ 4	—	1,936
Hospital and Medical Insurance Premiums	—	1,162	—	—	—	1,162
Other[c]	16	634	120	4	—	774
Investment Income[e]	3,907	6,031	303	10[e]	1,438[e]	11,689
Interest on Government Held Funds	1,275	380	75	—	—	1,730
Interest on Loans and Investments	1,950	1,859	54	—	—	3,863
Remittances from Government Enterprises	682	389	174	—	—	1,245
Royalties[d]	—	3,403	—	—	—	3,403
Capital Consumption Allowance	657	1,425	1,474	264	—	3,820
Total Own Source Revenue	38,177	35,194	10,408	278	4,164	88,221

[a] Includes both employee and employer contributions.
[b] Includes profits of liquor commissions, special excise duties and taxes.
[c] Includes certain licenses, fees, fines, etc.
[d] Excludes miscellaneous taxes on natural resources.
[e] Direct taxes—Persons and Investment Income for CPP/QPP and Hospitals subtotals include amounts for programs not shown in the detail.
*CPP—Canada Pension Plan. QPP—Quebec Pension Plan.

SOURCE: Reproduced from David B. Perry, "National Accounts Budget," *Canadian Tax Journal*, 27: 500, July/August 1979.

Chart 1

PERCENTAGE DISTRIBUTION OF TOTAL GOVERNMENT REVENUE*



* The total government revenue on which the chart data are based does not include capital consumption allowances.

Chart 2

PERCENTAGE DISTRIBUTION OF FEDERAL GOVERNMENT REVENUE

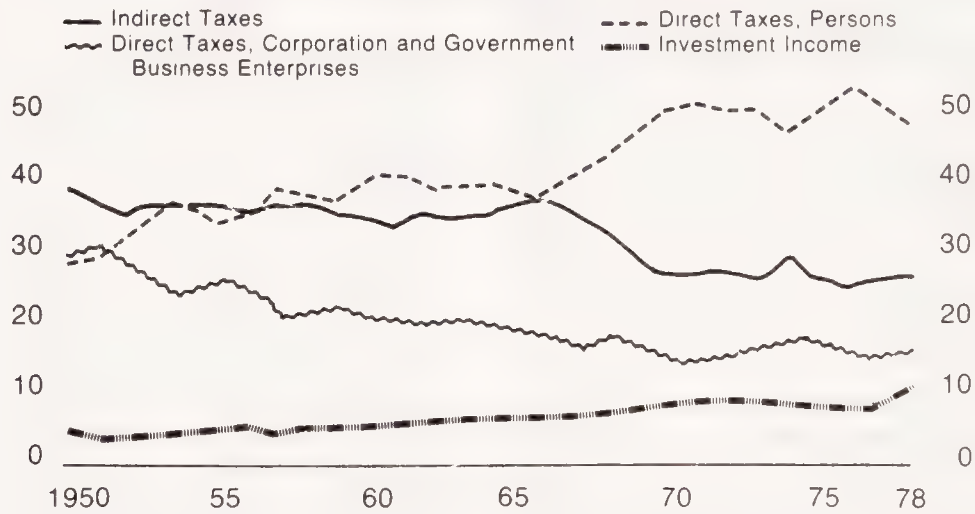
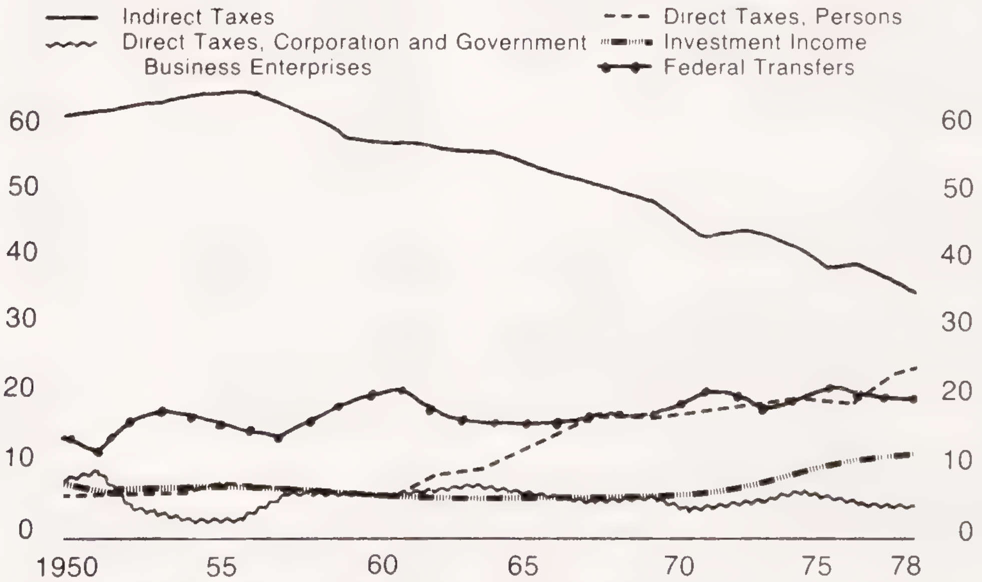


Chart 3

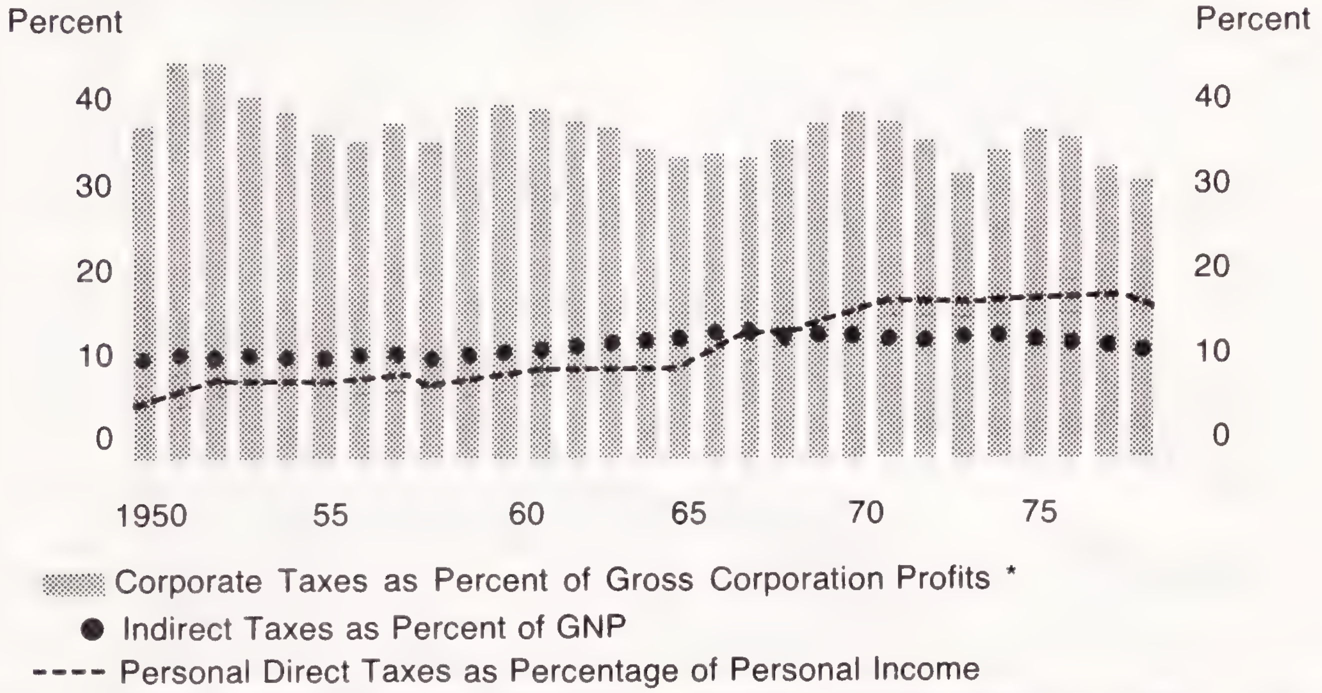
DISTRIBUTION OF NON-FEDERAL GOVERNMENT REVENUE



SOURCE: Mark J. Daniel "Where the Government Gets its Money." *The Canadian Business Review*, Spring 1979, pp. 54, 58.

Chart 4

GOVERNMENT REVENUES AS A PERCENTAGE OF INCOME BASE



* Taxes on government business enterprises have been excluded from corporate direct taxes for this calculation.

SOURCE: Statistics Canada and Mark J. Daniel, "Where the Government Gets its Money," *The Canadian Business Review*, Spring 1979, p. 54.

period between 1950 and 1975. However, it declined rapidly after that, reaching 16.5% in 1978. *Chart 2* shows the story of federal revenues from its four major sources. The personal income tax obviously has become somewhat less important at the federal level, contributing only 46.3% of total federal revenues in 1978, as compared with over 50% in 1976. The major reason for decline in the late seventies was implementation of the Fiscal Arrangements Act of 1977, which moved from federal cost-sharing with the provinces to transfer of taxing authority to the provinces for hospital and medical care and post-secondary education. The effect of the shift was to decrease that portion of federal revenue coming from personal income taxes. Federal income deriving from direct taxes and taxes on corporations and government businesses has been declining generally since 1950, with a little upswing in the late 1970s. Income from invested funds has risen considerably over the period.

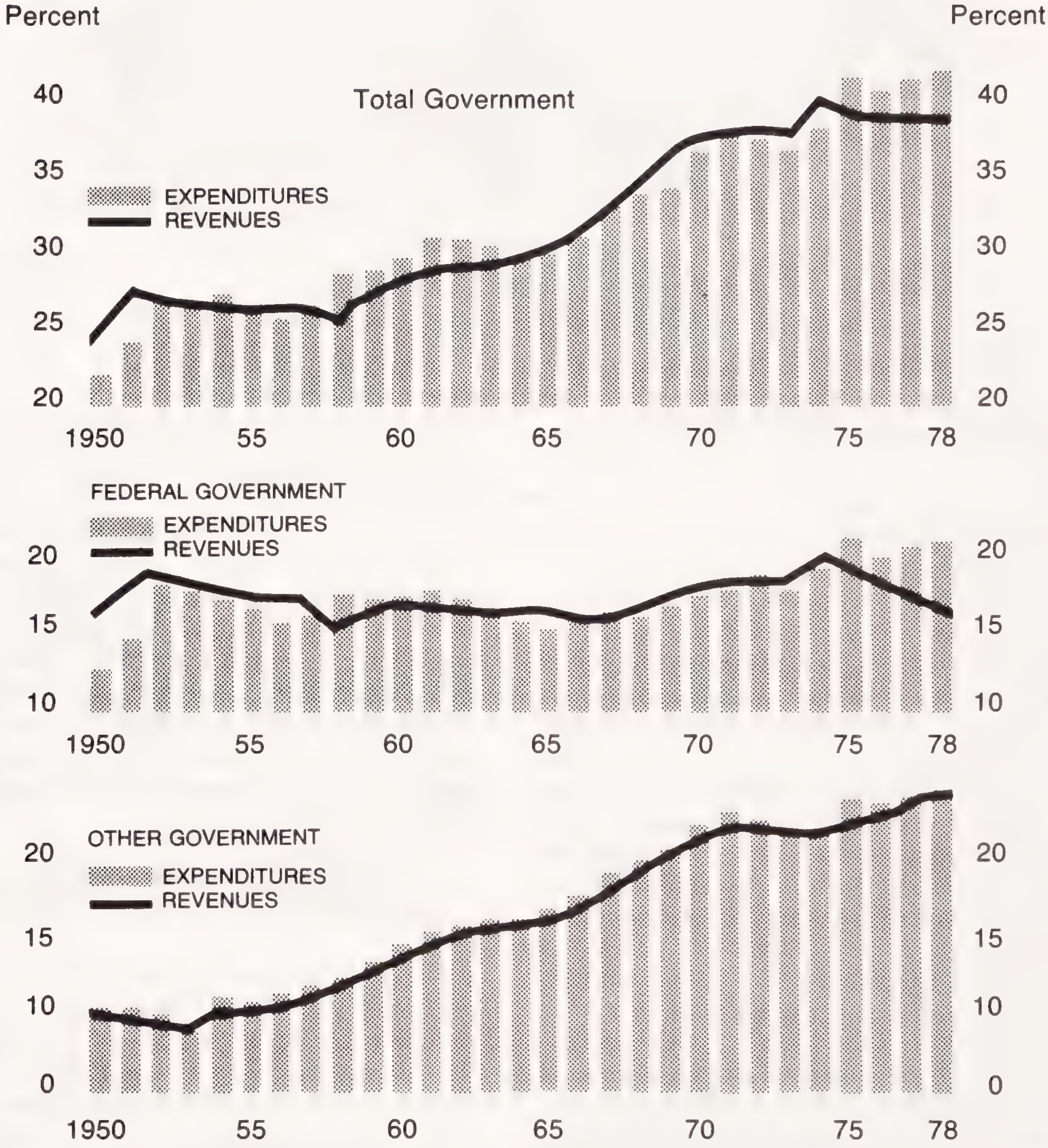
The federal government's revenue position is affected adversely by the many so-called tax expenditures permitted under federal law. A 1979 federal Department of Finance report showed some 190 tax exemptions, deductions, write-offs, and special incentives included in present federal tax law and regulations cost the federal government millions yearly in lost revenues. The revenue loss from each of the tax expenditures tends to increase over the years. While this study recognizes the legitimacy of such items, it points out they generally are open-ended, with no ceilings as to total cost to the government.[5]

TAX AND TRANSFER REVENUES OF NON-FEDERAL GOVERNMENTS

Non-federal government revenues as a proportion of GNP have increased greatly over the period since 1950 (see *Chart 5*). At the same time there has been a major shift in revenue sources at the non-federal level (see *Chart 3*). The steady decline in the role of indirect taxes as sources of revenue for non-federal governments since 1950 is perhaps the most dramatic change to be noted. From almost 63% of total revenues in the mid-fifties, indirect taxes slipped to 35.4% in 1979. Even so, they still constitute the largest source of tax revenue for

Chart 5

Government Revenue and Expenditures as a Percentage of GNP*



* Federal government revenue and other government revenue together do not equal total government revenue since other government revenue includes transfers from the federal goverment and the total government revenue includes the Canada and Quebec Pension Plans which are not included in the other sectors.

SOURCE: Statistics Canada and Mark J. Daniel, "Where the Government Gets its Money," *The Canadian Business Review*, Spring 1979, p. 53.

provinces. Of such taxes, retail sales taxes produce by far the greatest proportion of revenue. Exemptions from sales taxes, however, have broadened over time. Commonly exempted now are food, medicine, books, many clothing items, and other items in common household use. Thus retail sales taxes "have ceased to be broad consumption levies and have increasingly become semi-luxury taxes."[6] Direct taxes on persons, which were a minor source of revenue in 1950—about 6%—had become the second most important revenue source at the provincial level by 1978—at about 24% of the total. In dollar terms, "personal income taxes raised by the provinces were about $2.8 billion in 1972–73 and about $10.4 billion by 1979–80, representing an average annual growth of 20%."[7] Investment income also has risen substantially, while revenue derived from taxes on corporations has fallen overall.

Revenues from oil and gas are an increasingly important item in provincial budgets. "Total provincial revenue from oil and gas, mostly accruing to Alberta, British Columbia, and Saskatchewan, grew at an average annual rate of nearly 46% from 1972–73 to 1979–80. They amounted to approximately $397 million at the beginning of the period and by 1979–80 were in excess of $5.5 billion."[8]

The importance of federal government transfers to the provinces' revenue position merits special note. *Table 12* shows the growth of those transfers between 1926 and 1979 and also of the very small transfers from the federal government to local governments. It is significant that federal transfers to the provinces nearly doubled between 1974 and 1979.

In addition to the intergovernmental transfers involved in the Fiscal Arrangements Act of 1977 and other legislation, the federal government also pays certain statutory subsidies to the provinces under the Constitution. The BNA Act authorizes subsidies to support provincial governments and per capita allowances, special grants, and allowances for interest on provincial debts to be made to the provinces yearly. These amount to only a little more than $30 million annually. The Public Utilities Income Tax Transfer Act requires the federal government to remit to the provinces 95% of the tax it collects on the income from investor-owned public utilities which is derived from the generation or distribution to the public of electricity, gas, and steam. For the fiscal year ending March 31, 1980, a total of $66.5 million was transferred to the provinces under this provision.[9]

Through making available some of its own services and facilities to the provinces and municipalities the federal government contributes further to non-federal governments, though not in strictly monetary terms. A single example of such a contribution is the Canadian Police College, which was opened in Ottawa in 1976 as a federal government activity. It provides unified training facilities for executive and middle-management police officers from all across Canada—the Royal Canadian Mounted Police (RCMP), provincial police, and municipal police.

GOVERNMENT EXPENDITURES

Total government expenditures in Canada as a percentage of GNP have almost doubled since 1950, rising to a high of 41.6% in 1978. (*Chart 5*). The Economic Council of Canada noted in 1978 that "Government expenditures in the 1966—76 period rose rapidly, largely as a result of the development and enrichment of . . .programs in the fields of health, education, and social security. . . ." (*Chart 6*). The Council went on to note most of the increase in the governmental share of Gross National Expenditures (GNE) occurred between 1966 and 1970, "rising from 30.9 to 36.4%. In the space of [those] four years, Canada's GNE increased by $24 billion, half of which came from government, particularly provincial government, spending."[10] As a result of government actions to relieve the economic distress that plagued Canada in the early seventies, government expenditures as a proportion of GNE continued to climb. Toward the end of the 1970s, however, the growth in overall government spending began to moderate. "The overall population growth was slowing, and the effects could. . .be seen in the diminution of the numbers of primary and secondary school children." However, unemployment and inflation marred the economy which necessitated government action. This forced an increase in *federal* spending. Even so, the Economic Council reported total government expenditures (net of inter-

Table 12

INTERGOVERNMENTAL TRANSFERS, NATIONAL ACCOUNTS BASIS, 1926–79
(in millions of Canadian dollars)

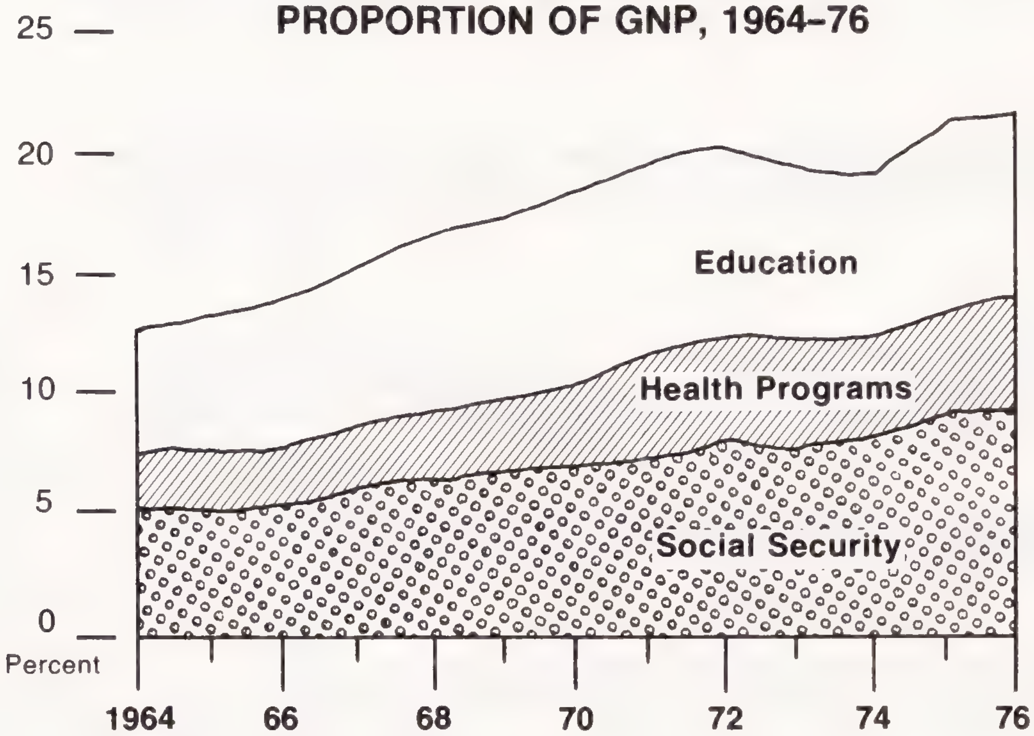
Year	Intergovernmental Transfers: Federal to Provincial	Federal to Local	Provincial to Local	Local to Provincial	Revenues From Own Source: Federal	Provincial	Local	Federal Transfers as Percent of Federal Revenues	Federal-Provincial Transfers as Percent of Provincial Revenues	Federal-Local Transfers as Percent of Local Revenues
1926	$ 15	—	$ 23	$ 6	$ 389	$ 156	$ 322	3.9%	9.6%	—
1927	16	—	24	4	404	168	334	4.0	9.5	—
1928	17	—	27	5	449	184	349	3.8	9.2	—
1929	17	—	30	7	418	209	375	4.1	8.1	—
1930	25	—	36	10	293	210	375	8.5	11.9	—
1931	56	—	54	10	249	190	366	22.5	29.5	—
1932	62	—	38	10	233	179	356	26.6	34.6	—
1933	56	—	20	10	266	177	337	21.1	31.6	—
1934	71	—	26	10	316	186	351	22.5	38.2	—
1935	74	—	22	10	332	229	361	22.3	32.3	—
1936	91	—	27	10	422	267	365	21.6	34.1	—
1937	105	—	28	7	485	298	358	21.6	35.2	—
1938	86	—	30	7	437	305	364	19.7	28.2	—
1939	79	—	32	7	481	311	370	16.4	25.4	—
1940	70	—	29	7	884	361	377	7.9	19.4	—
1941	54	—	31	7	1,523	386	390	3.5	14.0	—
1942	65	—	37	7	1,957	430	393	3.3	15.1	—
1943	59	—	40	7	2,380	458	403	2.5	12.9	—
1944	68	—	58	7	2,524	474	414	2.7	14.3	—
1945	76	—	63	7	2,385	538	415	3.2	14.1	—
1946	97	—	79	7	2,555	619	440	3.8	15.7	—
1947	112	—	101	7	2,696	780	485	4.2	14.4	—
1948	114	—	129	9	2,681	879	540	4.3	13.0	—
1949	147	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

1950	202	$ 1	171	11	2,972	1,013	649	6.8	19.9	0.2%
1951	205	2	197	13	4,113	1,194	746	5.0	17.2	0.3
1952	170	3	215	13	4,492	1,320	850	3.9	12.9	0.4
1953	163	3	242	15	4,563	1,410	922	3.6	11.6	0.3
1954	164	2	259	15	4,344	1,481	994	3.8	11.1	0.2
1955	180	7	327	22	4,745	1,640	1,073	3.9	11.0	0.7
1956	189	9	362	18	5,411	1,865	1,220	3.7	10.1	0.7
1957	288	16	452	28	5,455	2,075	1,357	5.6	13.9	1.2
1958	394	23	545	17	5,163	2,216	1,489	8.1	17.8	1.5
1959	588	24	622	24	5,871	2,489	1,686	10.4	23.6	1.4
1960	673	32	714	17	6,228	2,629	1,853	11.3	25.6	1.7
1961	789	33	841	15	6,473	2,860	1,982	12.7	27.6	1.7
1962	1,010	44	1,063	15	6,899	3,396	2,142	15.3	29.7	2.1
1963	1,117	52	1,148	17	7,323	3,639	2,286	16.0	30.7	2.3
1964	1,199	53	1,289	18	8,355	4,189	2,396	15.0	28.6	2.2
1965	1,357	74	1,440	22	9,095	4,949	2,646	15.7	27.4	2.8
1966	1,556	108	1,760	37	9,984	5,782	2,956	16.7	26.9	3.7
1967	1,895	97	2,025	56	10,906	6,782	3,298	18.3	27.9	2.9
1968	2,280	92	2,262	40	12,218	7,966	3,658	19.4	28.6	2.5
1969	2,632	94	2,501	46	14,490	9,293	4,067	18.8	28.3	2.3
1970	3,303	94	3,098	44	15,528	10,548	4,438	21.9	31.3	2.1
1971	4,230	93	3,490	44	17,241	11,744	4,748	25.1	36.0	2.0
1972	4,400	158	3,911	49	19,560	13,253	5,214	23.3	33.2	3.0
1973	4,694	113	4,388	40	22,809	15,880	5,582	21.1	29.6	2.0
1974	6,013	152	5,156	41	29,978	20,039	6,247	20.6	30.0	2.4
1975	7,527	143	6,560	50	31,703	22,253	7,303	24.2	33.8	2.0
1976	8,318	204	7,163	51	35,437	26,014	8,677	24.0	32.0	2.4
1977	9,615	352	8,616	48	36,146	30,954	9,548	27.6	31.1	3.7
1978	10,510	347	9,213	43	37,644	35,216	10,443	28.8	29.8	3.3
1979	11,438	348	11,066	47	43,269	39,525	11,271	27.2	28.9	3.1

SOURCE: Data provided by the Federal-Provincial Relations Division, Department of Finance, Canada.

Chart 6

GOVERNMENT EXPENDITURES ON SOCIAL PROGRAMS AS A PROPORTION OF GNP, 1964–76



SOURCE: Economic Council of Canada, *Fifteenth Annual Review*, "A Time for Reason," 1978, p. 100.

governmental transfers) grew only 12% in 1977, compared with an average of 20% in each of the previous three years.[11]

From 1978, both levels of government have undertaken to maintain "the commitment to restrain spending they made at the February 1978 First Ministers' Conference, thus tacitly acknowledging the widespread public sentiment that the trend in government expenditure growth should be held, on average, to less than the corresponding growth in the value of total output."[12] That decision culminated in a series of policies which were to be put into effect from 1975 on to reduce expenditures as part of a broad anti-inflation program. Since then, pressures for continuation of committed payments under established programs have met more resistance than they did formerly. "For the longer term," the Bank of Nova Scotia concluded, "the real need continues. . .for the development of mechanisms and institutions that will provide thorough and on-going assessments of government programs and ensure adequate public attention to those assessments," to the end that government spending may be rationalized.[13]

Tables 13 and 14 show total government expenditures between 1926 and 1979; *Table* shows 1978 government expenditures (excluding intergovernmental transfers) in terms of dollar allocations for specific general purposes. What is not obvious from any of the tables is the increase in the relative importance of government spending on goods and services. In 1948, it amounted to 43% and in 1978 49.5% of total expenditures. Transfer payments to individuals represented 25.4% of total expenditures in 1948 and 26.3% in 1978. Interest on the public debt declined from 16.5% 1948 to 11.3% of total expenditures in 197 Gross capital formation was 11.6% of all expenditures in 1948 and accounted for 8% 1978.[14]

Table 13 shows the degree to which subnational government spending exceeded spending by the national government in 197 That trend is continuing, and it constitutes sharp reversal of traditional government spending patterns. In 1945, at the end of World War II, the federal government of Canada spent over 80% of the public funds then available for use; in 1979, the provinces and municipaliti

spent over 60% of available funds (after intergovernmental transfers).[15] This exchange of places led the Economic Council of Canada to note in its 1978 review that Canada's fiscal system has come to differ "substantially from that of most other nations."[16] The cost-sharing programs initiated largely by the federal government "have been the single most important factor explaining the rapid increase in government expenditures during the past decade (1969–1979). In a situation where roughly half of every dollar is provided by some other government, normal spending restraints [were] greatly relaxed."[17] That source of growth has been considerably reduced in importance, however, by the 1977 Fiscal Arrangements Act.

Reference back to *Chart* 5 clearly indicates total government expenditures have exceeded total revenues since 1975. The current gap "is running at an extremely high level, with the difference in 1979 amounting to over $8 billion (3.2% of GNP)."[18] In examining the individual levels of government, data show the provinces taken together yield a small surplus. The picture is not an even one, however. Alberta has accumulated huge surpluses and both Saskatchewan and British Columbia consistently have surpluses as well. However, the seven Eastern Provinces have had deficits of various sizes. What this represents, a study by the Conference Board in Canada suggests, "is a large-scale transfer of wealth from the oil consuming to the producing provinces similar in kind to the global transfer of wealth that is occurring from industrial nations to the [OPEC] states. . . ." Given the Canadian constitutional arrangement, "which rests in the provinces ownership of natural resources, such as oil, that are unequally distributed across the country," nothing much can be done to ameliorate the situation save by some kind of equalization scheme under the aegis of the federal government.[19]

THE FEDERAL DEFICIT

The provincial surplus/deficit situation, however, is small potatoes compared to that of the federal government. While *Chart* 5 shows the federal government had more revenue than expenditures in 14 of the last 30 years, it also indicates those happy days ceased in 1975. Since that year, expenditures have exceeded revenues, and that gap has been widening. More recent data indicate a federal deficit of $12.1 billion for 1978–79, $11.45 billion for 1979–80 and $14.2 billion for 1980–81.[20]

What can be done about the deficit situation in terms of further reducing government expenditures is problematical. Many of those expenditures "are recurrent and relatively incompressible and . . . do not lend themselves to discretionary decisions."[21] Moreover, the programs for which they have been incurred are generally popular with Canadians. Indeed, the Economic Council noted in 1978, "for some Canadians any breach of the principle of universality [in government programs], especially in contributory schemes, would be ideologically unacceptable."[22] A systematic review of responses to Canadian Gallup Polls from 1941 to 1979 showed while the people are "greatly in favor of balancing the federal budget and . . . cut[ting] federal spending," there is no evidence they want government to withdraw from such services as welfare, unemployment insurance, universal health care, pensions and family allowances—the very programs which have led governments into deficit spending.[23] Finally, the impact of government borrowing is to cause a steady increase in expenditures required to cover interest payments.

GOVERNMENT WORK FORCES

As a result of the recent increase in government expenditures, a companion increase in the size of the government work force might be expected, and in fact it has taken place. "In the space of a generation, the number of workers employed in government administration . . . increased by close to 450,000 and, in the . . . decade [1967–1977], about half a million additional jobs [were] created in the education and hospital fields. Taken together, government administration, education and hospitals . . . provide [d in 1977] employment for one out of every five Canadians."[24] Since 1977, there has been a considerable slowing down of public sector employment, as the policy of expenditure restraint has taken hold.

Basically, the public employment sector increase has come at provincial and local levels, as suggested. Primary responsibility for most

Table 13

EXPENDITURES BY LEVEL OF GOVERNMENT, BEFORE AND AFTER INTERGOVERNMENTAL TRANSFERS, NATIONAL ACCOUNTS BASIS, 1926–79
(dollar figures in millions of Canadian dollars)

Year	Total Expenditures	Expenditures Before Intergovernmental Transfers			Percent Distribution of Expenditures Before Intergovernmental Transfers			Expenditures After Intergovernmental Transfers			Percent Distribution of Expenditures After Intergovernmental Transfers		
		Federal	Provincial	Local	Federal	Provincial	Local	Federal	Provincial	Local	Federal	Provincial	Local
1926	$ 810	$ 321	$ 166	$ 323	39.6%	20.5%	39.9%	$ 306	$ 164	$ 340	37.8%	20.2%	42.0%
1927	859	336	181	342	39.1	21.1	39.8	320	177	362	37.3	20.6	42.1
1928	898	344	207	347	38.3	23.1	38.6	327	202	369	36.4	22.5	41.1
1929	991	362	240	389	36.5	24.2	39.3	345	234	412	34.8	23.6	41.6
1930	1,099	389	276	434	35.4	25.1	39.5	364	275	460	33.1	25.0	41.9
1931	1,116	409	286	421	36.6	25.6	37.7	353	298	465	31.6	26.7	41.7
1932	1,047	387	261	399	37.0	24.9	38.1	325	295	427	31.0	28.2	40.8
1933	956	380	240	336	39.7	25.1	35.1	324	286	346	33.9	29.9	36.2
1934	1,041	409	300	332	39.3	28.8	31.9	338	355	348	32.5	34.1	33.4
1935	1,093	453	307	333	41.4	28.1	30.5	379	369	345	34.7	33.8	31.6
1936	1,087	459	297	331	42.2	27.3	30.5	368	371	348	33.9	34.1	32.0
1937	1,173	476	364	333	40.6	31.0	28.4	371	448	354	31.6	38.2	30.2
1938	1,254	524	394	336	41.8	31.4	26.8	438	457	359	34.9	36.4	28.6
1939	1,205	483	382	340	40.1	31.7	28.2	404	436	365	33.5	36.2	30.3
1940	1,689	1,024	330	335	60.6	19.5	19.8	954	378	357	56.5	22.4	21.1
1941	2,237	1,550	354	333	69.3	15.8	14.9	1,496	384	357	66.9	17.2	16.0
1942	4,346	3,680	334	332	84.7	7.7	7.6	3,615	369	362	83.2	8.5	8.3
1943	5,022	4,323	359	340	86.1	7.1	6.8	4,264	385	373	84.9	7.7	7.4
1944	5,980	5,233	397	350	87.5	6.6	5.9	5,165	414	401	86.4	6.9	6.7
1945	5,029	4,217	446	366	83.9	8.9	7.3	4,141	466	422	82.3	9.3	8.4
1946	3,751	2,800	526	425	74.6	14.0	11.3	2,703	551	497	72.1	14.7	13.2
1947	3,198	2,009	685	504	62.8	21.4	15.8	1,897	703	598	59.3	22.0	18.7
1948	3,378	1,916	864	598	56.7	25.6	17.7	1,802	858	718	53.3	25.4	21.3
1949	3,824	2,175	983	666	56.9	25.7	17.4	2,028	983	813	53.0	25.7	21.3
1950	4,080	3,333	1,017	741	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

1951	5,227	3,142	1,190	895	60.1	22.8	17.1	2,935	1,211	1,081	56.2	23.2	20.7
1952	6,605	4,297	1,259	1,049	65.1	19.1	15.9	4,124	1,227	1,254	62.4	18.6	19.0
1953	6,812	4,412	1,303	1,097	64.8	19.1	16.1	4,246	1,239	1,327	62.3	18.2	19.5
1954	7,091	4,390	1,428	1,273	61.9	20.1	18.0	4,224	1,348	1,519	59.6	19.0	21.4
1955	7,498	4,543	1,612	1,343	60.6	21.5	17.9	4,356	1,487	1,655	58.1	19.8	22.1
1956	8,224	4,813	1,909	1,502	58.5	23.2	18.3	4,615	1,754	1,855	56.1	21.3	22.6
1957	8,906	5,205	2,059	1,642	58.4	23.1	18.4	4,901	1,923	2,082	55.0	21.6	23.4
1958	9,946	5,930	2,266	1,750	59.6	22.8	17.6	5,513	2,132	2,301	55.4	21.4	23.1
1959	10,647	6,210	2,502	1,935	58.3	23.5	18.2	5,598	2,492	2,557	52.6	23.4	24.0
1960	11,380	6,457	2,842	2,081	56.7	25.0	18.3	5,752	2,818	2,810	50.5	24.8	24.7
1961	12,134	6,883	3,141	2,110	56.7	25.9	17.4	6,061	3,104	2,969	50.0	25.6	24.5
1962	13,135	7,406	3,452	2,277	56,4	26.3	17.3	6,352	3,414	3,369	48.4	26.0	25.6
1963	13,831	7,609	3,738	2,484	55.0	27.0	18.0	6,440	3,724	3,667	46.6	26.9	26.5
1964	14,817	8,010	4,270	2,537	54.1	28.8	17.1	6,758	4,198	3,861	45.6	28.3	26.1
1965	16,513	8,551	4,949	3,013	51.8	30.0	18.2	7,120	4,888	4,505	43.1	29.6	27.3
1966	18,992	9,753	5,956	3,283	51.4	31.4	17.3	8,089	5,789	5,114	42.6	30.5	26.9
1967	21,741	10,990	7,116	3,635	50.5	32.7	16.7	8,998	7,042	5,701	41.4	32.4	26.2
1968	24,345	12,229	8,022	4,094	50.2	33.0	16.8	9,857	8,080	6,408	40.5	33.2	26.3
1969	27,052	13,469	8,974	4,609	49.8	33.2	17.0	10,743	9,151	7,158	39.7	33.8	26.5
1970	30,947	15,262	10,777	4,908	49.3	34.8	15.9	11,865	11,026	8,056	38.3	35.6	26.0
1971	34,863	17,386	12,214	5,263	49.9	35.0	15.1	13,063	12,998	8,802	37.5	37.3	25.2
1972	39,455	20,126	13,944	5,385	51.0	35.3	13.6	15,568	14,482	9,405	39.5	36.7	23.8
1973	44,471	22,422	15,982	6,067	50.4	35.9	13.6	17,615	16,328	10,528	39.6	36.7	23.7
1974	55,322	28,869	19,387	7,066	52.2	35.0	12.8	22,704	20,285	12,333	41.0	36.7	22.3
1975	67,388	35,508	24,009	7,871	52.7	35.6	11.7	27,838	25,026	14,524	41.3	37.1	21.6
1976	75,766	38,793	27,515	9,458	51.2	36.3	12.5	30,271	28,721	16,774	40.0	37.9	22.1
1977	85,079	43,839	31,465	9,775	51.5	37.0	11.5	33,872	32,512	18,695	39.8	38.2	22.0
1978	94,660	49,001	34,651	11,008	51.8	36.6	11.6	38,144	35,991	20,525	40.3	38.0	21.7
1979	102,495	52,438	38,972	11,085	51.2	38.0	10.8	40,652	39,391	22,452	39.7	38.4	21.9
Excluding Oil Import Compensation Expenditures													
1975	65,697	33,817	24,009	7,871	51.5	36.5	12.0	26,147	25,026	14,524	39.8	38.1	22.1
1976	74,820	37,847	27,515	9,458	50.6	36.8	12.6	29,325	28,721	16,774	39.2	38.4	22.4
1977	84,156	42,916	31,465	9,775	51.0	37.4	11.6	32,949	32,512	18,695	39.2	38.6	22.2
1978	94,017	48,358	34,651	11,008	51.4	36.9	11.7	37,501	35,991	20,525	39.9	38.3	21.8
1979	101,361	51,304	38,972	11,085	50.6	38.4	10.9	39,518	39,391	22,452	39.0	38.9	22.2

SOURCE: Data provided by the Federal-Provincial Relations Division, Department of Finance, Canada.

Table 14

EXPENDITURES BY LEVEL OF GOVERNMENT, BEFORE AND AFTER INTERGOVERNMENTAL TRANSFERS, AS PERCENT OF GROSS NATIONAL PRODUCT, 1926–79
(dollar figures in millions of Canadian dollars)

Year	Total Expenditures as Percent of GNP	Expenditures Before Intergovernmental Transfers as Percent of GNP			Expenditure After Intergovernmental Transfers as Percent of GNP			Exhibit: Gross National Product
		Federal	Provincial	Local	Federal	Provincial	Local	
1926	15.7%	6.2%	3.2%	6.3%	5.9%	3.2%	6.6%	$ 5,146
1927	15.4	6.0	3.3	6.1	5.8	3.2	6.5	5,561
1928	14.8	5.7	3.4	5.7	5.4	3.3	6.1	6,050
1929	16.1	5.9	3.9	6.3	5.6	3.8	6.7	6,139
1930	19.2	6.8	4.8	7.6	6.4	4.8	8.0	5,720
1931	23.8	8.7	6.1	9.0	7.5	6.3	9.9	4,693
1932	27.5	10.1	6.8	10.5	8.5	7.7	11.2	3,814
1933	27.4	10.9	6.9	9.6	9.3	8.2	9.9	3,492
1934	26.2	10.3	7.6	8.4	8.5	8.9	8.8	3,969
1935	25.4	10.5	7.1	7.7	8.8	8.6	8.0	4,301
1936	23.5	9.9	6.4	7.1	7.9	8.0	7.5	4,634
1937	22.4	9.1	6.9	6.4	7.1	8.5	6.8	5,241
1938	23.8	9.9	7.5	6.4	8.3	8.7	6.8	5,272
1939	21.4	8.6	6.8	6.0	7.2	7.8	6.6	5,621
1940	25.2	15.3	4.9	5.0	14.2	5.6	5.3	6,713
1941	27.0	18.7	4.3	4.0	18.1	4.6	4.3	8,282
1942	42.3	35.8	3.3	3.2	35.2	3.6	3.5	10,265
1943	45.4	39.1	3.2	3.1	38.6	3.5	3.4	11,053
1944	50.5	44.2	3.4	3.0	43.6	3.5	3.4	11,848
1945	42.4	35.5	3.8	3.1	34.9	3.9	3.6	11,863
1946	31.6	23.6	4.4	3.6	22.7	4.6	4.2	11,885
1947	23.7	14.9	5.1	3.7	14.1	5.2	4.4	13,473
1948	21.8	12.4	5.6	3.9	11.6	5.5	4.6	15,509
1949	22.8	12.9	5.9	4.0	12.1	5.9	4.8	16,800
1950	22.1	12.6	5.5	4.0	11.5	5.7	4.0	18,491

1951	24.2	14.5	5.5	4.1	13.6	5.6	5.0	21,640
1952	26.9	17.5	5.1	4.3	16.8	5.0	5.1	24,588
1953	26.4	17.1	5.0	4.2	16.4	4.8	5.1	25,833
1954	27.4	16.9	5.5	4.9	16.3	5.2	5.9	25,918
1955	26.3	15.9	5.7	4.7	15.3	5.2	5.8	28,528
1956	25.7	15.0	6.0	4.7	14.4	5.5	5.8	32,058
1957	26.6	15.5	6.1	4.9	14.6	5.7	6.2	33,513
1958	28.6	17.1	6.5	5.0	15.9	6.1	6.6	34,777
1959	28.9	16.9	6.8	5.3	15.2	6.8	6.9	36,846
1960	29.7	16.8	7.4	5.4	15.0	7.3	7.3	38,359
1961	30.6	17.4	7.9	5.3	15.3	7.8	7.5	39,646
1962	30.6	17.3	8.0	5.3	14.8	8.0	7.8	42,927
1963	30.1	16.5	8.1	5.4	14.0	8.1	8.0	45,978
1964	29.5	15.9	8.5	5.0	13.4	8.3	7.7	50,280
1965	29.8	15.4	8.9	5.4	12.9	8.8	8.1	55,364
1966	30.7	15.8	9.6	5.3	13.1	9.4	8.3	61,828
1967	32.7	16.5	10.7	5.5	13.5	10.6	8.6	66,409
1968	33.5	16.8	11.1	5.6	13.6	11.1	8.8	72,586
1969	33.9	16.9	11.2	5.8	13.5	11.5	9.0	79,815
1970	36.1	17.8	12.6	5.7	13.8	12.9	9.4	85,685
1971	36.9	18.4	12.9	5.6	13.8	13.8	9.3	94,450
1972	37.5	19.1	13.3	5.1	14.8	13.8	8.9	105,234
1973	36.0	18.1	12.9	4.9	14.3	13.2	8.5	123,560
1974	37.5	19.6	13.1	4.8	15.4	13.7	8.4	147,528
1975	40.8	21.5	14.5	4.8	16.8	15.1	8.8	165,343
1976	39.6	20.3	14.4	4.9	15.8	15.0	8.8	191,166
1977	40.6	20.9	15.0	4.7	16.2	15.5	8.9	209,379
1978	41.1	21.3	15.0	4.8	16.6	15.6	8.9	230,407
1979	39.3	20.1	15.0	4.3	15.6	15.1	8.6	260,533
			Excluding Oil Import Compensation Expenditures					
1975	39.7	20.5	14.5	4.8	15.8	15.1	8.8	165,343
1976	39.1	19.8	14.4	4.9	15.3	15.0	8.8	191,166
1977	40.2	20.5	15.0	4.7	15.7	15.5	8.9	209,379
1978	40.8	21.0	15.0	4.8	16.3	15.6	8.9	230,407
1979	38.9	19.7	15.0	4.3	15.2	15.1	8.6	260,533

SOURCE: Data provided by the Federal-Provincial Relations Division, Department of Finance, Canada.

Table 15

NATIONAL ACCOUNTS BUDGET FOR ALL LEVELS OF GOVERNMENT, 1978
Preliminary Expenditure Excluding Intergovernmental Transfers (in millions of Canadian dollars)

	Federal	Provincial	Local	Hospitals	CPP/QPP[1]	Total
Current Expenditure on Goods and Services	$11,862	$13,304	$15,878	$6,580	$ 71	$47,695
Nondefense	7,125	11,879	14,404	6,316	71	39,795
Defense	4,080	—	—	—	—	4,080
Capital Consumption Allowance	657	1,425	1,474	264	—	3,820
Transfers to Persons[2]	14,556[2]	8,763[2]	285[2]	—	1,710[2]	25,314[2]
Family Allowances	2,224	—	—	—	—	2,224
Unemployment Insurance	4,536	—	—	—	—	4,536
Pensions to Government Employees	645	260	—	—	—	905
Old Age Security	5,244	—	—	—	—	5,244
Direct Relief	—	1,774	283	—	—	2,057
Grants to Postsecondary Institutions	—	2,611	—	—	—	2,611
Grants to Benevolent Associations	—	2,007	—	—	—	2,007
Subsidies[2]	2,378[2]	845[2]	—	—	—	3,223[2]
Agriculture	548	186	—	—	—	734
Canadian Dairy Commission	287	—	—	—	—	287
Oil	644	—	—	—	—	644
Capital Assistance	412	204	—	—	—	616
Transfers to Nonresidents	998	—	—	—	—	998
Interest on Public Debt	6,408	3,160	1,250	62	—	10,880
Gross Capital Formation	1,381	2,869	3,034	405	—	7,689
Total Expenditure	37,995	29,145	20,447	7,047	1,781	96,415

[1] CPP, Canada Pension Plan.
QPP, Quebec Pension Plan.
[2] Transfers to Persons and Subsidies subtotals include amounts for programs not shown in the detail.
SOURCE: Reproduced from David B. Perry, "National Accounts Budgets," *Canadian Tax Journal*, 27:501, July/August 1979.

government domestic service delivery also lies there. The overall federal government work force, on the other hand, has remained stable, if it has not in fact decreased in recent years. A one percent drop in the number of general government federal employees—including the armed forces—was recorded between the first quarter of 1978 and the first quarter of 1979, but there was a slight increase in the number of employees of federal government enterprises.[25]

FOOTNOTES

[1] See Gerard La Forest, *The Allocation of Taxing Power under the Canadian Constitution*, Canadian Tax Paper No. 46, Toronto, Canadian Tax Foundation, 1967.

[2] Government of Canada, Department of Finance, *Economic Review*, April, 1980, Table 76.

[3] This section draws heavily on Mark J. Daniel, "Where the Government Gets Its Money," *The Canadian Business Review*, Spring 1979, pp. 52-55. Reference should also be made to *Canadian Tax Memo No. 62*, March 1980, Toronto, Canadian Tax Foundation, 1980.

[4] *Bank of Canada Review*, January 1980, Table 29. The amount for provinces excludes borrowings from the

Canada Pension Plan and other pension plans.

[5] Department of Finance, *Government of Canada Tax Expenditure Account*, 1979, summarized in *The Globe and Mail*, December 7, 1979, p. B1. See also Jonathan R. Kesselman, "Credits, Exemptions, and Demogrants in Canadian Tax-Transfer Policy," *Canadian Tax Journal*, 27: 653–54, November/December 1979.

[6] John F. Due, "Changes in State, Provincial and Local Sales Taxation in the Last Decade," *Canadian Tax Journal*, 27:43, January/February 1979.

[7] David B. Perry, "Fiscal Figures. Equalization and Shifting Provincial Revenues," *Canadian Tax Journal*, 27:73, November/December 1979.

[8] *Ibid.*

[9] Department of Finance figure provided to the author, June 19, 1980.

[10] Economic Council of Canada, Fifteenth Annual Review, *A Time for Reason*, 1978, pp. 99–100.

[11] *Ibid.*, pp. 100, 116.

[12] *Ibid.*, p. 18.

[13] The Bank of Nova Scotia, Toronto, *Scotiabank Monthly Review*, September 1978, p. 3.

[14] Figures are from David B. Perry, "National Accounts Budgets," *Canadian Tax Journal*, 27:501, July/August 1979.

[15] *The Globe and Mail*, January 8, 1980, p. 4.

[16] Economic Council of Canada, *Fifteenth Annual Review*, p. 124.

[17] Grant Reuber, "Monetary, Fiscal and Debt Management Policies," in R.B. Byers and Robert W. Redford, *Canada Challenges: The Viability of Confederation*, Toronto, Canadian Institute of International Affairs, 1979, p. 230.

[18] Government of Canada, Department of Finance, *Economic Review*, April 1980, Tables 11.1 and 11.7.

[19] The Conference Board paper (by Diane Burrows) is the subject of an article by Ronald Anderson, *The Globe and Mail*, November 15, 1979, p. B2, from which the quotations are taken.

[20] Government of Canada, Minister of Finance, *News Release*, 80–27, April 21, 1980.

[21] Economic Council of Canada, *Fifteenth Annual Review*, p. 124.

[22] *Ibid.*, p. 101.

[23] *The Financial Post*, February 9, 1980, p. 7; see also Auld, "Public Sector Awareness and Preferences in Ontario," p. 182.

[24] Economic Council of Canada, p. 99.

[25] *Canada Weekly*, vol. 7, No. 24, June 23, 1979, p. 8, and Vol. 8, No. 2, January 9, 1980, p. 1. See for a general discussion of the public sector work force Richard M. Bird, in collaboration with Meyer W. Bucovetsky and David K. Foot, *The Growth of Public Employment in Canada*, Toronto, Institute for Research on Public Policy, 1979.

Chapter 7

Imbalances and Disharmonies

FISCAL IMBALANCE

As the provinces have become more assertive and the federal government responsive to their assertions, the federal government's fiscal position has weakened and the provinces' has strengthened. An extensive quotation from the Economic Council of Canada's 1979 review summarizes what has happened.

> Over the post-war period the public sector has grown faster than the rest of the economy. That trend has emerged in all industrialized countries, but has been particularly pronounced in Canada, where governments grew from around 20 percent of GNP to current levels of 42 percent. Even this does not tell the whole story, because of so much public participation in commercial activity through Crown corporations, utilities, and joint ventures of various kinds.
>
> This expansion was facilitated by strong economic growth. The progressive income tax yielded rapidly rising revenues, especially when inflation began to add substantially to growth of nominal incomes in the late sixties and early seventies. In addition, governments increased many indirect tax

rates and collected more social security contributions. Widespread advances in real income softened the higher tax bite and governments had no problem financing escalating demands for public goods and services.

But all this growth of government produced a mutation in the public sector. A problem of "fiscal imbalance" developed, with demands for incremental services being directed towards one level of government while the money needed to meet those claims was in the hands of the other level of government. For example, during the 1960s the federal government enjoyed the lion's share of direct taxes while the emphasis was on education, health care, welfare, and the provision of social capital, domains which are mostly provincial.

[So the federal government began to transfer funds to the provinces through sharing costs, the equalization program, and loans to the provinces.]

The net result of these changes was that provincial and local government expenditures rose in 20 years from less than 10 percent of GNP to about 25 percent by 1975. Meanwhile, the federal-expenditure share of GNP remained roughly constant at around 15 percent. In 1978, provincial, local and hospital expenditures at $56.8 billion were about 1½ times those of the federal government.

Besides this . . . the share of federal expenditures devoted to transfers grew from one-quarter to more than one-half between 1955 and 1975.

The federal government's role as a direct purchaser of goods and services in the economy is now relatively minor, at least in comparison with provincial and local governments.

In brief, the centre of gravity of the public sector has drifted progressively towards the provinces, not only because of the change in the relative size of federal and provincial governments but also because areas within provincial jurisdiction have become essential ingredients in most national economic policies.

In sum, the Council concluded, by 1980 the revenue distribution had changed so much there was "a new context for economic management and federal-provincial relations" in Canada.

The federal government, which enjoyed buoyant revenues up to the early seventies, now finds its finances strained to the limit. Among the provinces, imbalances have developed as the result of uneven distribution of revenues from exploitation of natural resources. [These are not] temporary aberrations from a well-balanced structure; on the contrary, they are likely to persist and will require political resolution. Without such action, the [federal] government's management of the economy will become increasingly powerless, to the peril of the country as a whole and the welfare of every Canadian.[1]

GOVERNMENTAL MANAGEMENT (?) OF THE ECONOMY

In all fairness, it should be noted the fiscal imbalance that has come to exist between the governments of Canada is not the only reason why federal management of the economy has not been effective. It is not only the revenue clout of the provinces and their independent spending and borrowing proclivities, but also their increasingly aggressive and regionally oriented mind-set that makes them an unruly team, hard to manage. To a certain extent, the provinces have come to feel they can better reflect and guide the regional will than Ottawa can. The point remains, however, that Ottawa's ability to manage the Canadian economy has been diminishing.

A number of analyses of the effectiveness of federal fiscal policy in terms of national economic stability and growth have been made in recent years. Though their conclusions are not identical, they lend support to the Economic

Council's conclusion. For they all find the impact of such policies on the economy generally has been ineffective or perverse rather than otherwise.[2] And an analysis of the impact of federal fiscal and monetary policies on the critically important natural resources sector of the Canadian economy concluded those policies had served only to amplify "the cyclical booms and busts in the resource sectors."[3]

Other observers point to the federal government's failure to prevent some balkanization of Canada's economy. Separate provincial industrial development programs which subsidize parts of the private sector already are in place. These agree to draw on intraprovincial rather than external sources of capital, labor, and supplies; provincial policies for purchasing goods and services from a province's own suppliers and labor pool in preference to purchase from outside the province; cultivation of trade relations abroad by one province without coordination with the other provinces or with the federal government; provincial investment plans designed to keep capital inside the province; and a number of "special deals" between a single province and Ottawa entered into without regard to the impact of such arrangements on the other provinces or the country as a whole. As of April 1, 1980, the Alberta Petroleum Marketing Commission took over sales of crude oil from Crown lands; the commission refuses to sell crude to companies without refineries in the province. Concern has been expressed that such barriers to moving goods, capital, and labor across provincial lines may convert Canada into ten markets instead of one and so weaken the country's overall situation in the world market still further.[4]

In a recent study of the problem Edward Safarian concluded that overcoming the trend toward balkanization is complicated by the fact that "decentralization is fashionable at the moment" in Canada and by the need currently felt to curb the federal government as a way to get at its increasing deficit. At the least, Safarian suggests, "the constitution could be rewritten to prohibit non-tariff barriers to trade—currently it only prohibits tariffs between provinces."[5]

In light of their new position on the Canadian fiscal stage and in view of the responsibility they must bear for moving Canada as far as it is on the road to balkanization, it seems the provinces must play a more responsible role in managing the economy than they have thus far. A leading Canadian economist recently noted "in this era of reconsideration of the . . . general issues of the federal-provincial division of powers . . . junior levels of government should assume increased responsibility" for economic stabilization.[6] And in its 1977 review, the Economic Council of Canada concluded "that there [was] considerable scope for the provinces to use fiscal policy more effectively than they have in the past to offset fluctuations in their levels of economic activity."[7] One of the Council's major recommendations that year was that provincial governments assume a greater role in the area of countercyclical fiscal policy. In 1979, the Council urged the provinces to work with the federal government in developing a joint "comprehensive, integrated, medium-term fiscal outlook" to present to the public and to legislatures for their deliberation. Such an outlook, the Council concluded, should "clearly identify the nation's economic potential consistent with the relatively full employment of its resources, along with the expected federal surplus or deficit position." The Council went on to note in "making this recommendation, we recognize that there exists an extensive network of federal-provincial discussions of both financial and non-financial matters. We believe that these discussions can be improved by the addition of an open, consistent presentation of medium-term federal and provincial fiscal prospects."[8]

The Government of British Columbia seemed to agree with that recommendation. In a study of its own, it concluded "the provinces independently should not pursue major stabilization objectives through tax-expenditure adjustments," but they should participate actively in a coordinated way in attempting to develop a national stabilization policy. In fact, because provincial revenues increasingly have been based on the "cyclically sensitive" income tax and because the percentage of provincial (and municipal) expenditures in terms of share of GNP has increased so significantly in recent years, their participation "in joint consultation in the planning of stabilization policy" apparently is required. Before that comes about, however, British Columbia argued better

data—particularly provincial/regional trade data—must be available and more consideration given to various models of provincial initiatives that might be undertaken—"e.g., tax cuts, expenditures on particular goods and services, and capital projects . . . in terms of their stimulative impacts within the provinces" and beyond their borders.[9]

In any case, providing concerted management of the economy probably will form one element of the constitutional debate which began after the Quebec referendum of May 20, 1980, on Sovereignty-Association.

In addition to any reform in that area, however, some action to rectify Canada's existing fiscal imbalance probably will be forthcoming. For it would seem the current financial situation, with its accompanying prospect of increasing federal deficits, is not a matter to be tolerated. As presently constituted, Ottawa's revenue base is simply too small to support all of the cost sharing and other programs it has undertaken with the provinces. As noted earlier in this study, the equalization program in particular would seem to be in jeopardy, or at least in need of some modification, with Ontario under the present formula entitled to compensation. In an analysis of the prospects of the 1980s in Canda, *The Financial Post* concluded "federal-provincial wrangles over tax revenue will inevitably continue." It noted Prime Minister Clark had called for a "revamping of federal-provincial revenue sharing," perhaps through the vehicle of a royal commission.[10]

THE IMPACT OF OIL PRICES ON GOVERNMENTAL REVENUES

One issue which led to the downfall of the Clark government was its proposed new energy package which would have led to accelerated increases in the price of oil to consumers. Clark's proposal accepted a $4 per barrel increase in the wellhead price of oil in 1980 and $4.50 per barrel for the following three years. The producing provinces would have derived normal revenues from these increases amounting to about 45% of the total. Industry would have derived a normal share of the first $2 a barrel increase but the federal share of the increase, normally very small, would have increased to roughly one-half on the second $2 a barrel. There would be a similar arrangement for natural gas. Part of the federal revenues would have been used to finance energy projects, part for conservation, and part for general governmental purposes. In addition, the excise tax on gasoline would have been increased 18 cents a gallon, that money too going into the federal coffers. Also the personal income tax was to be changed to provide a refundable energy tax credit for lower and middle income taxpayers. The new Trudeau government is, of course, concerned with these same issues.

A new round of negotiations between the federal government and Alberta on oil pricing * was begun in early summer 1980 against the August 1, 1980 expiration of the agreement between Ottawa and Alberta. Bitter intergovernmental exchanges have taken place ever since 1974 before other agreements were reached. The years since then have not served to soften the positions compromised in those agreements. The discussions in 1980 were marked by the same disagreements that characterized the earlier ones. As Stephen Duncan commented in *The Financial Post*, a price hike necessary to satisfy Ottawa can only exacerbate regional rivalries. "There is already . . . a remarkable difference in perceptions over the question of sharing." "Apprehensive Ontario sees the price of oil as having risen from $3 a barrel to [almost] $14 over a brief five-year period. Alberta sees only that it is selling its product at [less than] half the world price" and by selling it at that price it has been in effect giving "the rest of the country about $4.2 billion a year" since 1973.[11]

Nor is the issue confined solely to the oil currently available in Alberta. Much of Alberta's reserve lies in oil sands, the technology for developing which is still to be perfected. Rapid exploitation of the oil sands may not be in Alberta's best interests.

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* To date discussions have been pretty much confined to oil pricing. However, natural gas is also a source of revenue to Alberta and British Columbia. The federal government does not impose an export tax on natural gas, so that the entire revenue from selling it abroad flows directly to the producing firms and provinces. The pricing of gas is wholly different from and more complex than that of oil and is covered under separate agreements.

> Rapid development—Ottawa would like to see one new oil sands plant come into production each year—would create a series of boom towns in the affected areas and would involve the [province] in heavy expenditures for roads, sewers, schools, hospitals and other facilities. The town planning and manpower planning that would be required, and the need to deal with the social and environmental aspects of a series of $5 billion oil sands plants, would present a daunty challenge to the Alberta Government.

"From Alberta's point of view . . . the best strategy would be one of steady development of the oil sands over a long period of time, and of integrating the growth with that of the province's emerging industrial base."[12] If Alberta accedes to rapid development, it likely will do so only if Ottawa accepts a pricing and revenue sharing arrangement eastern Canadians will think is excessive.

To date, much of the debate has focused narrowly on the issue of which government gets what from oil production royalties. There is, however, a broader question which must be answered: how is the oil industry going to be compensated for its part in the push toward oil self-sufficiency for Canada? "Billions will be required to meet the exploration and development costs, not only of the oil sands in Alberta, but of oil reserves off shore, in the other provinces, and in the Canadian North." Additional billions will be required for industry operation and for pipeline and other transportation development. To meet these costs, the industrial share of oil revenues will have to be maintained or increased.

> Ottawa, with its growing deficit, wants more revenue. Alberta, with its soaring budgetary surplus, wants to provide now for the day when the oil runs out. But these goals will become only of academic interest if the pricing formula doesn't leave the industry with enough money to undertake the enormously costly exploration and development . . . of [oil] sources.[13]

The oil pricing issue touches upon one of the most controversial aspects of Canadian constitutional law—ownership and control of natural resources. Those resources within provincial boundaries are clearly the property of the province; the federal government owns only those resources found in territories, in national parks, on Indian reservations, and on other federal government properties.

> Nevertheless, it has traditionally been recognized that the federal government does have both a practical interest and a moral responsibility in the general field of resource development . . . certain resource problems . . . are of such a magnitude as to be beyond the financial capacity of individual provinces, and there are others which spread across more than one province.

Moreover, the federal government must be particularly concerned with the preservation for future generations of Canadians of nonrenewable resources and with the impact of their exploitation on the balance of governmental revenues in the nation as a whole.[14]

The resource-blessed provinces in recent years have felt strongly that federal actions and assertions in the oil-pricing dispute and in developing and implementing tax policies as they affect natural resources threaten the principle of provincial jurisdiction. Premier Peter Lougheed of Alberta has taken the lead in demanding full recognition of that principle by the federal government, and he has been joined in his demand by Premier Brian Peckford of Newfoundland. Premier Lougheed developed the provincial thesis in a speech to the Vancouver Board of Trade in November 1979:

> A province owns its resources—it can determine when and how and how much to produce. If it wants to sell into the interprovincial/international market place, the federal government has certain jurisdiction and so it is a bilateral negotiation with regard to resources. If Ontario Hydro wants to sell its power outside the province it is a negotiation between the federal government and Ontario. In natural gas it would be between British Columbia and Alberta with the federal government—the same with oil. We are prepared to discuss oil with the consuming provinces, but frankly not negotiate with them.[15]

Thus the climate in which the oil-pricing formula, the beginning step toward a possible readjustment toward a better fiscal balance in Canada, is being discussed is acrimonious. Ottawa wants additional revenue, and it also wants to encourage energy conservation. As the Economic Council of Canada put it, for the latter purpose alone "it is essential that Canada's petroleum and natural gas prices soon reach parity with world prices . . . [even though] this will add inflationary pressures and place a further cost burden on regions and industries that are major users of oil and gas."[16] Ottawa's position right along has been that the federal government's take from an increase in oil prices must be sizable, and that is just where the opposition from Alberta comes in. Trudeau's Energy Minister Marc Lalonde said early in May 1980, Ottawa's aim is "not to stint Alberta's income, 'it is to develop a pricing system that will accommodate Alberta's revenue aspirations without severe and perhaps irreparable damage to the rest of Canada or even to the federation itself.'"[17]

It was announced on August 1, 1980, the governments of Alberta and Saskatchewan unilaterally raised prices of crude oil produced in those provinces by $2 a barrel, bringing the wellhead price to $16.75 a barrel. The action was not opposed by the Canadian government, which had been negotiating with the oil-producing provinces for several weeks without reaching an agreement. At the same time the Alberta government announced it would raise the price of natural gas produced in the province by 30 cents a thousand cubic feet, effective September 1, 1980.

TAX HARMONIZATION

Fiscal imbalance is the major problem resulting from the Canadian tax structure. However, another problem, that of tax harmonization, is present to some degree as well. Admittedly it is difficult to keep the federal government and the provinces, each conscious of its own fiscal authority and responsibility, in step as far as taxes are concerned and to prevent inequities from developing among regions and to preclude selecting any one sector of the Canadian economy for either preferential or discriminatory tax treatment.[18] Harmonization is especially important in the field of resource taxation; a discussion paper prepared for the November 1978 First Ministers' Conference demonstrated that in the 1970s there was "a considerable increase in the variability of the definition of tax bases and tax rates" among the provinces affecting resources, mining in particular,[19] and urged the tax base be restructured.

A certain amount of variation among the provinces in tax treatment inevitably is present "as a reflection of the different beliefs or preferences of the provincial governments,"[20] just as some variation is to be expected between federal tax policies, with their broader goals and purposes, and provincial tax policies. It is not desirable to attempt common adoption of tax rates and bases all across the board. However, basic agreement among the several governments of Canada as to the directions tax policies ought to take is desirable in order to have "greater neutrality or equity in tax treatment between sectors; fewer tax changes; and greater visibility where programs are explicitly designed to achieve regional economic objectives."[21] It is particularly important to have common rules for allocating taxes among provinces where the taxpayer has activities in more than one province. If this is not done, there can be a serious problem of double taxation.

The situation is still good in Canada; the intergovernmental consultation process in the fiscal arena has, as suggested earlier, worked to produce a good deal of harmony in the tax structure. There is, however, some concern about the future when Alberta withdraws from the Tax Collection Agreement for the Corporation Income tax. *Table 16* and *Figure 1* indicate tax rate differentials among the provinces in force for five major taxes.

Differential tax treatment also exists within Canada to a significant degree as a result of federal policies. There are differentials according to type of industrial activity: manufacturing and processing industries are treated differently from small businesses in terms of corporate income tax rate and writeoffs; and corporations involved in manufacturing and processing, petroleum and mining, logging, farming, fishing and grain storage, and in the production of industrial

Table 16

1980 PROVINCIAL TAX RATES

	Personal Income Tax (percent of federal income tax)	Corporation Income Tax (percent of taxable income)[d]		Sales Tax[e] (percent)	Gasoline Tax (1979 rates per gallon)	Cigarette Tax (per cigarette)
		General	Small Business			
Newfoundland	58.0%	15%	12%	11%	27¢	2.0¢
Prince Edward Island	52.5[a]	10	10	9	21	1.0
Nova Scotia	52.5	13	10	8	21	1.0
New Brunswick	55.5[a]	12	9	8	20	1.0
Quebec	[b]	13	12	8	19	1.2
Ontario	44.0[c]	14	12	7	21	1.2
Manitoba	54.0[c]	15	11	5	18	1.2
Saskatchewan	53.0[c]	14	11	5	19	1.2
Alberta	38.5[c]	11	5	nil	nil	.32
British Columbia	44.0[c]	15	10	4	17	.96

[a] Prince Edward Island and New Brunswick have in effect general reductions in their personal income taxes otherwise payable of 2.5% and 5.5%, respectively.

[b] Quebec's personal income tax rates under its own schedule range from 0% to 28% of taxable income.

[c] Ontario, Manitoba and British Columbia levy no income tax on low-income taxpayers who are subject to no federal tax because of the general federal tax cut. Saskatchewan does the same but adds a tax cut for taxpayers with children to a maximum of $7,390 taxable income. Alberta provides tax cuts for taxpayers whose taxable incomes are under $9,070.

[d] Corporation income tax rates are expressed as percentages of taxable income for federal purposes for eight provinces with tax collection agreements with the federal government. Quebec and Ontario rates are based on their own definitions but are similar to the federal definition. Ontario has two rates for companies other than small businesses. The general rate is 14% but for manufacturing and processing it is 13%.

[e] Higher rates of 10% are applied to spirits and wine in Prince Edward Island, Quebec, Ontario, Manitoba, and Saskatchewan; to beer in Saskatchewan; and to higher priced meals in Quebec and Ontario. A higher rate (7%) is applied in British Columbia to spirits and wine except where sold on licensed premises, when the rate is 5%.

SOURCE: *Federal and Provincial Taxes 1980 (Preliminary)*, a publication of the Subcommittee on Financial Data of the Federal-Provincial Continuing Committee on Fiscal and Economic Matters.

Figure 1

DIFFERENCES IN TREATMENT OF BUSINESSES IN PROVINCIAL TAX POLICY

Quebec	"Place of Business" Tax	Applies to companies in certain locations, $50 per company
Quebec Ontario Manitoba Saskatchewan British Columbia	Corporation capital tax—tax on paid-up capital of corporations (on equity and financing structure)	See below
All provinces (except Alberta)	Retail sales tax on sales of "tangible personal property"	Ranges from 5% in Manitoba and Saskatchewan, to 8% in Quebec and the Maritime Provinces, and to 10% in Newfoundland

Paid-up Capital Tax Differentials:

Quebec:	3/10 of 1%, minimum $100; 1/3 of 2% for oil refining companies; 6/10 for banks, loan and trust companies. Other rates and/or bases apply to certain classes of corporations, i.e., telegraph, railway, gasoline, liquor, investment, and mining. A special tax in the form of an additional 1/3 of 2% is levied on the paid-up capital of oil refining corporations.
Ontario:	3/10 of 1%; 4/5 of 1% for banks, loan and trust companies; $50 when paid-up capital does not exceed $100,000; $100 when paid-up capital is greater than $100,000 but less than or equal to $200,000.
Manitoba:	1/5 of 1%. Exemptions include corporations with paid-up capital under $500,000, cooperatives, credit unions, family farms, and charitable corporations. An exemption of $750,000 is allowed for small businesses.
Saskatchewan:	3/10 of 1% with $10,000,000 exemption—but 4/10 of 1% for chartered banks and loan and trust companies.
British Columbia:	1/5 of 1%. Exemptions include corporations with paid-up capital of under $1,000,000 (a graduated tax between $1,000,000 and $1,250,000); corporations exempt under the federal income tax act; credit unions, cooperatives and family farms. The tax for banks is 4/5 of 1% and for loan and trust companies is 3/5 of 1%.

SOURCE: Province of British Columbia, *Tax Harmonization,* p. 7; Statistics Canada, *Principal Taxes and Rates,* updated from 1979-80 and 1980-81 provincial budgets.

minerals qualify for investment tax credits against corporate income tax liability. Certain kinds of industrial development may receive investment incentives and investment tax credits if they are located in special areas or regions of the country. The resource industries benefit from a number of special provisions and extra deductions.[22]

Some or all of these differences may be discussed in the next round of federal-provincial negotiations leading to an updated fiscal arrangements act in 1982.

FOOTNOTES

[1] Economic Council of Canada, Sixteenth Annual Review, *Two Cheers for the Eighties*, 1979, p. 47.

[2] See W. Irwin Gillespie, "Post-War Canadian Fiscal Policy Revisted, 1945-1975," *Canadian Tax Journal*, 27:265-76, May/June 1979. He reviews the major analyses of others and adds his own judgments.

[3] Province of British Columbia, *Towards an Economic*

Strategy for Canada, Background Papers, "Natural Resource Management and Provincial Economic Development," February 1978, p. 9.

[4] Although it cannot be developed to any extent in this report, the point should be made that the Canadian economy is particularly dependent upon the world market, both for the raw materials it exports and the manufactured goods it imports, making government management difficult in any case.

[5] Safarian's study is reported by Catherine Harris in *The Financial Post*, November 10, 1979, p. 6.

[6] Peter Gusen, "Economic Stabilization by the Provinces," *The Canadian Business Review*, Winter 1978–79, p. 29.

[7] Economic Council of Canada, *Fourteenth Annual Review*, p. 28.

[8] Economic Council of Canada, *Sixteenth Annual Review*, pp. 88–89.

[9] Province of British Columbia, *Towards an Economic Strategy for Canada*, Background Papers, "The Role of the Provinces in Stabilization," February 1978, pp. 9, 11, 19.

[10] *The Financial Post*, January 5, 1980, p. 15.

[11] Stephen Duncan, *The Financial Post*, October 6, 1979, p. 4.

[12] Editorial, *The Financial Post*, October 27, 1979, p. 6.

[13] *Ibid.*

[14] H.L. Keenleyside, "Problems in the Administration of Canadian Resources," *The Canadian Journal of Economics and Political Science*, 16:330–31, August 1950.

[15] Quoted in *The Financial Post*, November 24, 1979, p. 12.

[16] Economic Council of Canada, *Fourteenth Annual Review*, p. 83. It should be noted that Prime Minister Clark signed the Tokyo Declaration pledging thereby that Canada would raise domestic oil prices to world market prices as soon as possible.

[17] Quoted in *The Calgary Albertan*, May 7, 1980, p. 1.

[18] Province of British Columbia, *Towards an Economic Strategy for Canada*, Background Papers, "Canadian Industrial Policy, Part II, Tax Harmonization," February 1978.

[19] *Federal-Provincial Resource Taxation Review*, a joint report by federal and provincial officials to Finance Ministers and Resource Ministers, Document Number 800–9/018, November 1978, p. 25.

[20] Province of British Columbia, "Tax Harmonization," p. 3.

[21] *Ibid.*, p. 4.

[22] *Ibid.*, pp. 8–10.

Chapter 8

Renegotiating the Federal Bargain

This report has referred to the pressure in Canada to renegotiate the federal bargain. The following quotations pose the problems:

> ... the same political problems have occupied [Canada] from [its] beginnings—the fact that we are two cultures ... the divisions of economic interest between the various regions of the country ... [and] whether a [Canadian] nation is at all possible when we share the continent with the giant heartland of the American empire .... These themes of our political life have never been separate from each other. In their intertwining they modify each other .... These old themes ... took new form in the 1970s, largely because of the staggering development of scientific technology. ... It was this ... that made many French-speaking technocrats so strongly nationalistic in the seventies. In the face of [the] new technology, how could Quebec culture exist if they did not take their political fate into their own hands? ... Trudeau's constant concentration on [resisting those moves] meant that his government often seemed almost uninterested in the other two great themes of Canadian politics, regional interests and our independence vis-a-vis the United States. As far as the

west was concerned, Trudeau acted as if its interests had no place in his scheme of things . . . [his] . . . Liberal . . . party had been the spearhead of continentalism in Canada . . . [so] it was not to be expected that in an administration directed by Trudeau there would be much interest in the questions of national independence . . . . The 1970s [were] above all a time when the Canadians wanted it both ways . . . . We could make affirmations of Canadian unity without coming to terms with the very serious questions asked by French Canadians. We could greatly increase our national expenditures and not calculate that the consequent deficits would have anything to do with inflation. We in Ontario could count on western oil to keep us driving and not think that Albertans might be worried about what would happen when their oil was gone . . . . [But] it looks as if the 1980s will be a less bland time in Canadian life than the 1970s. A decade which opens with declining prosperity, growing inflation and growing unemployment is not likely to be a time of political ease.[1]

The reality today is that we have two levels of active, aggressive government, often pursuing competing goals, and seeking greater control over the whole range of contemporary policy instruments. With this has come a shift in the issues which predominate in federal-provincial debate. The major issues of the postwar period focused mainly on fiscal sharing and on the use of the federal spending power in social policy . . . . There was a general consensus both on the thrust of policy—Keynesian economics and the welfare state—and on the legitimacy of federal leadership. Today the focus is on economic development, using the tools of taxation, regulation and public enterprise. Provinces have increasingly used them to promote their own development, to protect provincially-based industry, and to counteract both federal policies and market forces which seem to operate to the detriment of their region. They have demanded a greater provincial voice in national policies which affect these goals.[2]

. . . the federal government brought [its deficit] situation on itself through . . . tax reductions and generous refinancing of transfers to provincial governments. Federal revenues are overcommitted to supporting expenditures that are statutory, governed by federal-provincial agreements, and almost completely indexed upwards.

The federal government is in a poor position to continue to play its major role in economic management, equalization of provincial revenues, and the conduct of major national policies. In most areas of economic policy, achieving national objectives will require extensive provincial participation, or these objectives may never be met. There is an urgent need for more cooperation. In the longer run, the fiscal structure of the federation will have to be re-balanced and better institutional arrangements will have to be developed to cope with the challenge of interdependence between the federal and provincial governments.[3]

PROPOSALS FOR CONSTITUTIONAL REFORM

All the issues raised in these quotations need not be addressed by this study. They were used to frame the central issue facing Canada in the immediate future—the need for constitutional reform. Indeed, reform of the Canadian Constitution (the BNA Act as amended) has moved to a high place on the Canadian public agenda. For a good many years, proposals to revamp the constitution—and thus the Canadian federal system and Canadian fiscal federalism as well—have been appearing regularly from governments, political parties, and private sources. The debate opened in earnest in 1967 at a provincial conference in Toronto under the chairmanship of then Premier John Robarts of

Ontario. The conference theme was "The Confederation of Tomorrow," and the debate has been carried on ever since. By 1980, Canadians had before them a welter of reform proposals to consider.[4]

Chief among the proposals are the recommendations of the Task Force on Canadian Unity; Prime Minister Trudeau's program as outlined in the white paper, *A Time for Action;* the Parti Quebecois-Levesque proposals, mostly incorporated in the Quebec white paper, *Quebec-Canada: A New Deal*; and proposals of the governments of Alberta, British Columbia, and Ontario, embodied respectively in Alberta's *Harmony in Diversity: A New Federalism for Canada*, *British Columbia's Constitutional Proposals*, and the two reports of Ontario's Advisory Committee on Confederation.[5] Early in 1980, one more proposal was made which has succeeded in diverting attention from all the others. That proposal came from Claude Ryan (more specifically, from a committee of constitutional experts in Quebec's Liberal Party) and was released under the title, *A New Canadian Federation*. Since, as William Johnson noted in *The Globe and Mail*, "Claude Ryan's plan became immediately the most important constitutional document next to the British North American Act itself,"[6] . . . the parts of that plan most relevant to the subject of this report are summarized here. Many of the ideas in one or more of the other proposals appear in one form or another in the Ryan proposal. Obviously, in the last analysis, the final resolution of Canada's constitutional question will be an amalgam of ideas, even if the Ryan proposal is the base from which that resolution takes off.

Before summarizing the Ryan plan, however, it should be noted that many of the issues which must be addressed in reforming the Canadian constitution have been well explicated in the last decade. The major issue, to which the Ryan plan addresses itself *in extenso*, is, of course, how to deal with Quebec's demands, although as already suggested in these pages assertions of the Western provinces recently have come to demand as much attention as those of Quebec.[7]

Another issue dealt with in the Ryan proposal is that of patriation and amendment of the constitution—how to bring it home to Canada from its English statutory base. On May 9, 1980, the Canadian House of Commons passed a motion proposing the constitution be transferred from Britain to Canada. Prime Minister Trudeau said he would not be bound by the motion without getting provincial agreement to it. Once repatriated, agreement needs to be reached on how to provide for subsequent amendment.

Most other substantive issues addressed in the Ryan plan had been raised in First Ministers' and Premier meetings over the last several years. Thus the provincial premiers at their October 1976, meeting[8] agreed among the issues to be considered must be the distribution of power among the governments of Canada, specifically, power over immigration, fisheries, language rights, resource ownership and taxation, culture, and communications. They also agreed the federal declaratory power, its power to create new provinces, its spending power, its power to reserve or disallow provincial legislation, and its power to implement treaties must be reconsidered, as well as the federal residual power in general.

The First Ministers' Conference of February 1979 was devoted entirely to the subject of constitutional review. It considered many of the same topics the premiers had earlier and added others to the list: empowering governments adequately to fight inflation, unemployment, and regional disparities; dealing with non-tariff barriers to interprovincial and international trade and investment; providing for the regulation of the Canadian securities market; clarifying jurisdiction over minimum wages; and dealing with the role of commodity marketing boards.[9]

This enumeration of constitutional issues is selective and far from complete. One omission seems especially obvious: consideration of municipal governments' place in the Canadian federal system. Canada is an urban and metropolitan nation, yet the power of the provinces versus that of their urban centers and the federal government's responsibility for balanced urban growth and development have not been included in any official considerations for revision.

It is not the purpose of this study, however, to discuss constitutional revision generally. It must suffice to suggest the range of issues with

which constitutional reform must deal and which must be included in any debate about constitutional change as Canada moves toward action in the 1980s. Pandora's Box seems to be open; the likelihood of resolving all the issues very easily or quickly seems to be small.

THE REVIEW PROCESS INITIATED

In any case, overall constitutional change seems imminent in Canada in the wake of the outcome of the Quebec vote on Sovereignty-Association. The Parti Quebecois government of Quebec offered a proposal to negotiate a new agreement with the rest of Canada which would have enabled Quebec to exercise "the exclusive power to make its laws, levy its taxes and establish relations abroad—in other words, sovereignty—and at the same time, to maintain with Canada an economic association including a common currency."[10] In the May 20, 1980 vote, an astounding 60% of the voters declined to authorize the Quebec government to proceed with negotiations with the other governments of Canada. As Maxwell Cohen predicted, the "No" vote has been read "as disposing only of the sovereignty-association option . . . ." A "better deal" for Quebec still remains the goal of many Quebeckers and of other Canadians of all persuasions, and to achieve that, constitutional change within the fabric of confederation is still required.[11]

Prime Minister Trudeau responded to the Quebec vote by reaffirming his determination to tackle the overall question of constitutional reform during his present mandate. Immediately after the May referendum he initiated steps toward federal-provincial consultation. As a basis for discussion, a meeting of First Ministers (provincial premiers and the Prime Minister) prepared a list of priorities for a new Canadian constitution, which was issued on June 10, 1980. The list was prefaced by the statement "The time has come for the Government of Canada and the Governments of the Provinces to join together in the task of drafting a new Canadian Constitution. As it enters upon that task, the Government of Canada is dedicated to a full review of all constitutional measures now applying to our federation. The . . . task constitutes a great enterprise and will take time to achieve. Not all of it can be accomplished at once, nor can we wait until all of it is done to demonstrate to the people of Canada that tangible progress is being made. The Government of Canada believes, therefore, that intensive work should now begin on a list of items of particular priority to the people of Canada and to governments, with the understanding that some or all of these could well become the subject of early adoption as parts of the new Canadian Constitution."

The list of priority items, which drew heavily from the earlier discussions summarized here, was as follows:

- a statement of principles;
- a charter of rights, including language rights;
- a dedication to sharing and/or to equalization: the reduction of regional disparities;
- the patriation of the constitution;
- resource ownership and interprovincial trade;
- offshore resources;
- fisheries;
- powers affecting the economy;
- communications, including broadcasting;
- family law;
- a new upper house, involving the provinces; and
- the supreme court, for the people and for governments.

A schedule of meetings of first ministers and other ministers on constitutional change was established, with the expectation an open conference of first ministers will be held in Ottawa in early September 1980, to "finalize agreements arising out of work under way, and to put in train a further work program."[12]

Thus Canada has taken Quebec's challenge seriously and is embarking on the first general constitutional overhaul ever undertaken there. As suggested earlier, the Ryan proposal likely will provide a central focus in that debate. It is time to turn to the most relevant parts of that proposal as far as this study is concerned.

A NEW CANADIAN FEDERATION

At the outset the Ryan plan proposes a confederation which emphasizes the sovereignty of

both the federal and provincial governments, a confederation in which no government would be senior or junior to other governments. Rather, all 11 governments would be absolutely equal to each other, each "sovereign and autonomous in their own fields of jurisdiction."

The proposal thus meets Quebec's longstanding peculiar demands, while at the same time it recognizes the shift of power to the provinces in modern Canada and seeks to adjust Canadian federalism to the new facts of life that shift represents.

To ensure that equality, the Ryan Plan proposes eliminating the present Senate (the upper house of the Canadian Parliament) and replacing it with a Federal Council, representative of the provinces in proportion to their population. "The aim of such an institution . . . is to ensure a better cohesion in Canadian policies, by allowing the provinces a say in the development of those federal initiatives which are so far ranging that they affect the whole country and which therefore have implications for provincial jurisdictions." The Council's chief function would be to act as a watchdog body to assure the federal government does not encroach arbitrarily on provincial powers. Specifically, the Council would have the power to ratify federal government expenditures in provincial jurisdiction areas by a two-thirds vote. "The central government could no longer develop policies and commit funds in areas under provincial jurisdiction without the approval of the provinces. . . ." The Council would also have an advisory power by the exercise of which the provinces could "express their view[s] on proposals which fall under the central government's exclusive jurisdiction but which have an important impact on the whole federation." And the Council would participate in the appointment of federal judges and officials.

Thus, "Federalism . . . appears to Mr. Ryan to be both an intellectual idea and a practical system worth defending. In fact, Mr. Ryan [instead of settling] for only a wholesale transfer of legislative powers to the provinces [has opted] in favor of giving the provinces a direct voice in the nation's central political institutions. This may make the operation of the central government more cumbersome, but the other route—massive decentralization—[would risk] leaving Ottawa looking like a Cheshire cat, where nothing would remain but the smile."[13] Or as Simeon puts it, the Federal Council would serve "as a forum for intergovernmental discussion and cooperation, a place to harmonize policies in the many areas in which both sectors of government have an interest and the power to act—to overcome the inevitable overlapping of responsibilities, however neat the division of powers."

> This may prove a forum for endless wrangling. But that would be nothing new in Canadian federalism. The massive, complex, cumbersome, secretive, and confusing process of federal-provincial negotiation we now have is almost a third level of government, but it exists completely outside the constitution.
>
> It must be made more effective and open. We must build a framework in which governments defend their actions in public and have an incentive to be sensitive to each other's interest. No conceivable new division of powers is going to reduce this need to cooperate. By forcing Ottawa to respond in advance to provincial interests, and by making provinces aware of the national implications of what they do, the Council is the most practical model yet proposed.[14]

Maxwell Cohen agrees "it is necessary to institutionalize federal-provincial consultative machinery. Whether this takes place through first ministers conferences, through Senate reform, or through some new body (e.g., Ryan's Federal Council) really matters less than does the notion that consultative mechanisms on all present issues must embrace federal and provincial governments in some permanent forum."[15]

Powers would indeed be redistributed under the Ryan plan. In general, the plan accepts the principle that provincial power should be strong enough to permit the provinces to take charge, "in their respective territories, of the tasks related to the development of their physical and human resources. This implies, among other things, the management of their natural resources, land use, local and provincial commerce, regional economic development, education and culture, social and sanitary services,

the administration of justice, and social insurance schemes." On the other hand, the Ryan proposal insists on "the existence of a central power strong enough to serve the whole country in the face of whatever new challenges the modern world presents, whether internally or externally. This government's major task will be to manage the economic union, to ensure the smooth operation of national policies in certain aspects of industry and commerce, to ensure a reasonable distribution of wealth between the provinces and between individual citizens, and to act in the name of the whole country in the pursuit of peace and national security."

It may well be desirable, Maxwell Cohen believes, to establish a greater number of concurrent powers in the constitution so as to facilitate "the joint decision-making process" which has become characteristic of Canadian government.[16]

After discussion of the need for a constitutional charter of rights, of desirable reforms in the institutions of federal and provincial governments, and of the power and role of the judiciary, the proposal takes up matters of fiscal federalism. At the outset, it recognizes the critical importance of the federal spending power. In the past, it notes, the spending power "has allowed the federal government to set up a great number of programs for funding individuals, institutions, or provincial governments in fields of provincial jurisdiction. Generally accompanied by specific conditions, these programs have become a means of regulating entire areas of provincial responsibility. Unconditional equalization payments also have their legal basis in the spending power. However, these are more acceptable to the provinces and must be maintained."

With regard to conditional subsidies, the proposal notes those programs were "originally intended to rectify fiscal inequalities and allow all provincial governments to provide, in several essential fields, a comparable level of services across Canada, without causing their populations a disproportionate financial strain. However, such programs have, at the same time, given the federal government a dominant influence in strictly provincial fields, such as education, health, welfare and housing. Furthermore, they are departures from a well established tradition of Canadian federalism, that of fiscal responsibility, and have had the effect of placing the provinces in the role of mere managers of administrative and legislative policies conceived at the federal level." "Despite the fact that some corrections have been made to this situation in recent years [particularly in the Fiscal Agreements of 1977], it is necessary to ensure that this situation does not recur in the future." That insurance would be supplied by the two-thirds vote of ratification by the Federal Council of any exercise of the spending power in fields of provincial jurisdiction.

The plan also proposes that "means be provided for compensating those provinces which, despite a national consensus of the Federal Council, might not wish to participate in one or several of these programs."

With regard to equalization payments, the Ryan proposal sees no reason to discontinue them. In fact, it states that "it is imperative . . . that our country's constitution impose upon the federal authorities the obligation to redistribute wealth, so as to reduce disparities and encourage the equality of opportunity between the regions of Canada." To that end, the federal government must have "an adequate fiscal mass, together with sufficient room to maneuver," to maintain "a viable policy of economic stabilization." Moreover, since the use of the central government's taxing powers itself "constitutes one of the most important instruments for the redistribution of wealth among the regions of the country," it is essential for the equilibrium and the proper functioning of the federation that those powers be ample.

The report goes on to note that equalization payments, by themselves, are not sufficient to "ensure reasonable economic equality between the various regions of the country. Economic development also must be distributed fairly across the country. This means the federal government must be in a position to stimulate economic activity in disadvantaged regions, not only in an indirect way, by the transfer of funds to provincial authorities, but also through clearly defined schemes for regional development." It would be another part of the Federal Council's role to advise the federal government on regional development policies.

The proposal devotes an entire chapter to

taxation and equalization. It postulates at the outset that the "autonomy of the provinces in their spheres of jurisdiction is illusory if they do not have access to adequate financial resources to meet their responsibilities." The report embraces the concept of fiscal responsibility, under which the government spending public money should be responsible for raising the funds, and it recognizes the need for both the provincial and federal governments to have adequate tax resources to meet needs in their respective areas of jurisdiction. Specifically, the report recommends:

1. Abolition of the constitutional distinction between direct and indirect taxes and the extension in the constitution to both levels of government of power to levy taxes for their own purposes by any means of taxation.
2. Formulation of rules "to harmonize the laws of the different fiscal regimes . . . to prevent . . . double taxation, and to ensure a comparable tax pool throughout the country."
3. Retention by the provinces of the right to collect duties and royalties from the exploitation of natural resources.
4. Retention by the federal government of power to "impose export taxes as well as taxes on profits derived from all commercial activities in Canada."
5. Retention by the provinces of the power to levy real estate taxes, "which are utilized almost exclusively . . . for municipal and local needs."
6. Retention by the federal government of the exclusive power to levy tariffs and customs duties.
7. Recognizing the impossibility of guaranteeing, through constitutional provisions, tax levels sufficient for each government to perform its necessary responsibilities, the report recommends joint government examination of the "basic structure of the division of the taxing powers" on a regular basis, every five or ten years. "The Federal Council should become the forum for the discussion and study of this matter."

John Trent of the University of Ottawa, one author of the Ryan proposal, subsequently noted some criticism of the proposal has been directed to the "massive shift" of power that implementing the proposals would involve. He dismisses the criticism on grounds the proposal primarily either formalizes "a situation already in practice," accepts the central government's indication "it wishes to get out of [certain] areas," or recognizes local governments are so involved in some areas "it makes sense to allocate them to the provinces." In any case, Trent concludes, "the central government has the mandate to handle interprovincial and international affairs, the Canadian economy, and develop the Canadian identity. It will retain the power . . . to spend money on programs in provincial jurisdictions when the provinces agree to it. It continues to have an emergency power. The unity of the Canadian economy is strengthened by proposals to reinforce our common market. Furthermore, Ottawa will have access to all fields of taxation . . . .[It will be responsible] for equalization . . . and [will be required] to help with regional economic development. It retains sole responsibility for defense and security. This is hardly an emasculated central government."[17]

If adopted, the proposal would create a more "workable federalism" first, based on a clearer division of jurisdictions between the central and provincial governments and, second, balanced by a series of institutions that will enforce cooperation between the governments. Specifically,

> . . . the proposed Federal Council will force the provincial and federal governments to work together—if they do not wish to be thrown out of office by a public which will, for the first time, have full access to intergovernmental debates and a visible means of assessing responsibility for disruption and conflict. While the Council will not intervene in purely central legislation, it will, through continuing intergovernmental committees and permanent provincial delegations in Ottawa, assure that legislation affecting both Ottawa and the provinces will be carefully coordinated.
>
> Similarly, the Supreme Court and various federal agencies, whose judges and officers

will have been approved by the provinces in the Federal Council, will be perceived to operate for the benefit of the provinces as well as Ottawa, thus bringing a new legitimacy to our federal institutions.[18]

Richard Simeon earlier had advocated creating a House of Provinces which would be much the same as Ryan's proposed Council. Simeon liked the idea of such a body as an "umbrella under which the various existing ministerial committees and secretariats would operate." He recommended responsibility for organizing and managing the Council be "undertaken by a permanent committee of federal and provincial ministers responsible for intergovernmental relations. It would be served by a small secretariat such as the existing Canadian Intergovernmental Conference Secretariat. . . . Together, the ministerial committee and secretariat would be responsible for preparing agendas and . . . providing a follow-up to agreements." As he sees it, "All federal-provincial agreements would be tabled in the council and it would be the setting in which at least annual First Ministers' meetings would take place." The requirement of going through the Council would "discipline Ottawa to explore fully its own arsenal of policy tools and consult fully with the provinces."

Other Requirements for Change

But creation of the Council as part of the federal government would not be enough for Simeon. He argues the necessity of making the intergovernmental consultation process subject as well to provincial legislative scrutiny. Each legislature, he believes, "should establish a permanent standing committee on intergovernmental relations, to focus debate on the government's actions." Moreover, that debate should occur in the open, so the committees can educate the public as well as i representatives. In particular, Maxwell Cohe argues, "new approaches to joint fact-sharin and fact-finding are [necessary] if the provinc and the federal government are to perceive i sues in the same way. . . . Difficult differenc are rendered almost impossible of resolution the facts . . . are perceived so differently by th adversaries as to make discussion essential unproductive. It is urgent to institutionalize continuing, common fact-finding proces among all eleven governments and to use it as unifying tool whenever necessary."[19]

Finally, despite the importance of embod ing the federal-provincial consultative proces in federal government institutions as a part o reconstructing the Canadian constitution, an Canadian federalism, Simeon argues sole re liance cannot be placed on that process. "T rely almost entirely on the intergovernment mechanism to reconcile center and periphery French and English, is to place an intolerabl burden on a fragile structure." More than any thing else, political parties must b strengthened, not only by "making the federa parties more regionally representative, but als [by] strengthening the ties between federal an provincial party systems, increasing mobilit between federal and provincial government and so on."[20] Elsewhere, Simeon reminds pro ponents of constitutional change it is difficu to predict what the effects of change will b "The answer cannot be found in the [new document itself; it depends . . . on the will o the politicians who operate it."[21]

Americans will be watching the constitu tional revision process now under way i Canada with intense interest. It is a process w never have felt it necessary to initiate. Howeve the broad issues of government are resolved a that process moves along. Resolving issues o fiscal federalism may contain a good many le sons applicable south of the Canadian border.

FOOTNOTES

[1] Adapted, with apologies, from an article by George Grant, "Inconsistencies Fed the 1970s," *The Globe and Mail*, December 31, 1979, p. 7.

[2] Simeon, *Intergovernmental Relations . . .*, p. 8.

[3] Economic Council of Canada, *Sixteenth Annual Review*, pp. 54, 57.

[4] In 1978, the Canadian Intergovernmental Conferen Secretariat collected most of the proposals as of th time in its publication *Proposals on the Constituti 1971–1978*, Ottawa, The Secretariat, 1978.

[5] Among the "unofficial" discussions of Canadian co stitutional reform Albert A. Abel's *Towards a Consti tional Charter for Canada*, Toronto, University of ronto Press, 1979, stands preeminent. But see also Du can Edmonds, "A Treaty of North America," reproduc

in U.S. *Congressional Record*, Vol. 126, No. 15: S877–S880, February 4, 1980.

[6] *The Globe and Mail*, January 11, 1980, p. 8. See also Ramsay Cook, "Claude Ryan and the Quest for Equality. His Ideas Deserve a Clear, Serious Response," *Saturday Night*, April 1980, pp. 40–42.

[7] See the article about the Canada West Foundation in *The Financial Post*, March 15, 1980, pp. 1–2. The Canada West Foundation, formed in 1970 and supported by the four Western provinces, the Yukon and Northwest Territories, and prominent Westerners, companies, and groups, is "a research-tool-cum-think-tank to serve as liaison on Western issues." It is currently working "for changes in the federal system . . . better division of federal and provincial powers, proportional representation, an elected Senate and regional vs. national economic development policies." It is not at present a separatist movement—to quote Stan Roberts, its president, "Western Canadians don't want out—we just don't like the status quo." Roberts is quoted also in the article as saying he had been assured by Prime Minister Trudeau that his (Trudeau's) "top priority will be to negotiate a stronger place for the West in Confederation."

[8] The 1976 Premiers' Conferece is summarized in *Canada Weekly*, Vol. 6, No. 35, August 30, 1978, pp. 1–2.

[9] *Canada Weekly*, Vol. 7, No. 11, March 14, 1979, p. 6.

[10] The wording of the ballot presented to the voters of Quebec, May 20, 1980.

[11] Maxwell Cohen, "Federalism Needs Fresh, New Look," *The Calgary Albertan*, May 8, 1980, p. 19. Cohen is dean emeritus of the McGill University School of Law.

[12] The First Ministers statement in mimeographed form was made available as a press release on June 10, 1980. The quotations are from that press release.

[13] Jeffrey Smith, *The Globe and Mail*, January 17, 1980, p. 7.

[14] Richard Simeon, "And Now the Crunch," p. 25.

[15] Cohen.

[16] *Ibid.*

[17] John Trent, "Federal Power is Too Dominant," *The Financial Post*, March 29, 1980, p. 9.

[18] *Ibid.*

[19] Cohen.

[20] Simeon, *Intergovernmental Relations* . . ., pp. 21–24.

[21] Simeon, "And Now the Crunch."

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